



BSL/SEC/16

22nd June, 2016

<p>✓ BSE Limited Listing Deptt. Floor 25, P.J. Towers Dalal Street MUMBAI - 400 001</p> <p>Code No.503722</p>	<p>National Stock Exchange of India Ltd. Listing Department Exchange Plaza Bandra-Kurla Complex Bandra (East), MUMBAI - 400 051</p> <p>Symbol" BANSWRAS"</p>
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Dear Sir,

Subject: Transcript of Q4 & FY16 Earnings Conference Call held on 27th May, 2016.

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, Kindly find enclosed a transcript of the Q4 & FY16 Earnings Conference Call held on Thursday, the 27th May, 2016. 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

J.K. Jain
For
(J.K. JAIN)

CFO & COMPANY SECRETARY



Encl.: as above

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“Banswara Syntex Limited for March Quarter and year
ended FY16 Earnings Conference Call”

May 27, 2016



**MANAGEMENT: MR. RAVINDRA K. TOSHIWAL – MANAGING DIRECTOR
MR. J. K. JAIN – CHIEF FINANCIAL OFFICER**



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Moderator:

Ladies and gentlemen good day and welcome to the March quarter ended FY16 Earnings Conference Call of Banswara Syntex Limited. This conference call may contain forward looking statements about the company which are based on the belief, 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, please signal an operator by pressing '*' and then '0' on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ravindra K Toshniwal- Managing Director of Banswara Syntex Ltd. Thank you and over to you sir.

Ravindra K Toshniwal:

Good afternoon ladies and gentlemen, very warm welcome to our quarter 4 FY16 Earnings call. Please call me Ravi if you need to for the rest of the conversation. Along with me on this call I have Mr. J. K. Jain our Chief Financial Officer, and SGA our Investor Relations Advisors. So let me start with a brief introduction about our company.

We have been a vertically integrated Textile Mill since 1977, we started with yarn and we will be completing 40 years in 2017. We have moved and evolved into weaving, finishing and garments, and even in different segments of the business that is the synthetics business, the woolen worsted business, the cotton business and some technical fabrics. And we also have evolved into men's wear and women's wear. So we are very well diversified and have gained experience in several different segments.

Now I will give you a quick update on the industry in general, the textile industry in India seems to be doing better now and the cotton segment is performing well, in the woolen sector as well some of the companies have begun to perform well. Synthetics is also showing some signs of improvement. Our 3 primary segments are;

One is yarn and in yarn we are the single largest fiber-dyed spun synthetic spinning Mill in the world because there are no other mills that do all dyed yarn with a capacity of 2400 tons per month. And we are producing primarily a lot of yarn which are fancy and highly value added yarns, so this is not only commodity spinning company; this is really a more specialty spinning company. The same is true for our worsted spinning which we started only in 2008.

Then we have our fabric division and our fabric division contributes 40% of our revenue. We are the leaders in stretch suiting in Poly viscose lycra, we have done stretch fabric which is equal to almost 30% of the total fabric we produce and it is growing and everybody knows us well for the fact that we make Lycra blends, we are a INVISTA Lycra partner and we get certification from them for the Lycra brand. We have many prominent customers all over the world, US, UK, Europe and even Japan now. In our technical fabrics, we make some



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specialty fabrics although this business remains quite small and we have still got a long way to go. We have a large capacity in weaving; we are doing almost 3 million meters or about 30 lakhs meters per month of fabric weaving which is about a total of 36 million meters in a year. And going forward our strategy is to increase the market presence for our value added fabrics, both in Stretch, in Jacquard and new products like specialty Denims.

In our garmenting division which contributes about 16% of our revenue and we are growing well, except for not as much growth last year but in general it has been growing well. We are more in the formal suit and trouser space, but have also moved into sportswear in a big way. When I say sportswear, I mean sport casuals, dress up clothing but not formal. So this is the new trend which seems to be growing very well. We have design studios which are located in India and Paris, we have full time design people in France working with us and we have invested in marketing teams all over the world to help our penetration in US, Europe, UK as well as in Japan. We are looking at the evolve markets and we remain primarily very small in The Middle East market as far as exports is concerned.

As far as CAPEX is concerned, most of our CAPEX is already done and we have a host of innovative products that lies in the company waiting to be marketed in good way and we want to find ways to do this well and that remains the challenge with us to try and deliver better results out of that. So as visible in our financials and on our operating parameters, we have begun to show much better results compared to last year and we are witnessing a good response to our product range and we think we are moving in the right direction. Our exports in the year FY16, was 46% of our sales and have gone up from 43% in FY15. To give you more details on the financial performance of the company, I would like to now hand over to Mr. J.K. Jain. Thank you.

J.K. Jain:

Thank you Mr Toshniwal. After the brief about the company I will just take this opportunity to brief you about the working performance of the company during the quarter 4 and for the financial year 15/16. The results are already with you, the revenue for the quarter 4 at was Rs. 348 crores up by 14% over the last Q4 FY14/15. The EBITDA for this quarter has increased by 51% over the last year. During this quarter the financial expenses are lower by about 16%, the company has paid about Rs. 77 crores of the secured debts during this last financial year. The company is also getting the interest rebate that is 3% interest equalization rebate from the government effective from 1st April 2015. The net profit for the quarter was at Rs. 11.6 crores as against the last year Rs. 1.7 crores loss. The PAT is about 3% for this quarter. If you look at the whole performance for the year 15/16, the total revenue was Rs. 1265 crores, the EBITDA was Rs. 171 crores, margin of 13.5%. The net profit for this financial year was Rs. 27 crores as against Rs. 8 crores during FY14/15 thus it has increased by about 240%. The operating performance has increased; the return on equity is 11% during this year as against 4% last year. The return on capital employed is also 22% as against 18% during FY14/15. So with all these summarize results and the performance already with you, I now open the floor for questions.



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- Moderator:** Thank you very much Sir. Ladies and Gentlemen, we will now begin the question and answer session. We have the first question from the line of Ujwal Shah of Quest Investment Advisors. Please go ahead.
- Ujwal Shah:** Just needed your outlook on the cotton season panning out and how do you see cotton yarn scenario evolving in terms of prices globally?
- Ravindra K Toshniwal:** See the cotton business is always the biggest business in India in textile and so your question is very relevant because cotton is really the big sector. At this point one sees an increase in cotton prices, the overall outlook looks good and many of the companies like Vardhman have done very well in the cotton business and I think that the cotton scenario looks interesting for India. Overall the cotton businesses in most segments should do fairly well.
- Ujwal Shah:** And in terms of yarn prices internationally how do you see those panning out for the year ahead?
- Ravindra K Toshniwal:** See the whole scenario is a little bit troubled or murky because of a little bit demand slowdown at retail and this little bit demand slowdown at retail is seen globally. And this is a challenge. In China, the situation right now is depending on how much China chooses to import yarn from India. Which will determine what the prices of the yarn will be because if you look at the Indian scenario today, we have produced a lot more yarn than we produce fabric and we produce a lot more fabric than we produce garment. And this is typical of India as compared to many other countries which produce more garments, less fabric and less yarn. So really we are reverse in terms of the value addition overall.
- J.K. Jain:** I will just clarify one thing that Banswara Syntex is mainly into synthetic spun yarn, we are just not spinning the cotton yarn, we are producing the cotton fabric out of the yarn bought out from other mills.
- Ravindra K. Toshniwal:** So you know, for us we are pretty neutral and not sensitive to these commodity fluctuations. That was the fact that we are going to be making more value added products downstream, so it is not really significant, from our perspective whether the market remains a little bullish or little weak is not going to make a difference.
- Ujwal Shah:** And Sir you said you are vertically integrated and looking at your presentations slide 15, a lot of internal usage of yarn to fabric and from fabric to garmenting happens, can you quantify at what percentage of yarn that you manufacture goes into fabric and how much of your fabric goes into your garmenting?
- Ravindra K Toshniwal:** Yes, we produce about 2400 tons of yarn per month roughly and we consume about 800. So roughly one third of our yarn produce goes into our fabric. And as far as the fabric part is



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concerned, we produce roughly around 2.7 to 3 million meters a month and we consume in our garmenting overall maybe about 0.5-0.6 million meters.

- J.K. Jain:** It is about 22%, 23%.
- Ujwal Shah:** And Sir in terms of the fabric business all in all, so is it a printed fabric that we look, is it processed fabric, how do you see fabric business in India panning out and for your company especially?
- Ravindra K Toshniwal:** These are 2 different questions. One is for me to just comment on the status of overall Industry in fabrics which is a general interest but specific interest for Banswara, really if you want me to define what fabric space we are in? We are in the fabric space that caters to formal dress clothing and sportswear dress-up clothing. So we are not in the casual segment, we are not in the segment that deals with knits or with T-shirts, etc. We are talking about fabric for dress pants, for chinos, for more upper end chinos and higher value added Jacquard type fabrics. So we are talking about, the kind of fabric that Raymond's does. We are catering to international global trends and global brands whether in India or abroad and we are catering to the new business which is evolving, which is called Fast Fashion. So typically the fabrics that would be used by companies like of Zara, UNIQLO, H&M those are the fabrics we will be making.
- Ujwal Shah:** And what percentage of our fabric business is exports Sir?
- Ravindra K Toshniwal:** Out of the total fabric business, a roughly Rs. 600 crores that we do, I think almost 80% is exports.
- Moderator:** Thank you. Our next question is from the line of Ashok Lodha of Max Future, please go ahead.
- Ashok Lodha:** Regarding this quarter results we have noticed 2 things sir; one power and fuel cost has come down by Rs. 6 crores compared last year. It was Rs. 26 crores last year but this quarter it is Rs. 20 crores only. So since we are having this captive power plant, can we expect similar type of savings in coming quarter?
- J.K. Jain:** You see the power cost has come down mainly due to the quality of coal that we have consumed and second thing is the reduction in the coal prices. Both these things have contributed; we have started consuming different combinations of coal this was tried out during Q3 also during Q4 the consumption taken was well established and this coal mix had given a substantial savings in terms of power cost. Second factor was the reduction in the price of fuel which is normally linked to the crude oil prices. This is all about the Q4. Now you have asked another question, will we continue to get the similar benefit in the next quarters also. Of course this will continue but the price benefit which we had during Q4 will slightly get muted because the prices have started increasing. So the next gain will not be to the extent we had in Q4 but definitely there will be savings on this account.



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- Ashok Lodha:** Right sir, another sense which was finance cost, which was Rs. 13.80 crore in last quarter, in this quarter it has gone up to Rs. 16.6 crore, although your overall long term borrowing and short term borrowing has reduced, just I wanted to know whether it is one time bank charges, LC charges have been done?
- J.K. Jain:** I got your point, you see I explained you in my preliminary note also that the company has received 3% interest equalization benefit on its fabric and garment export borrowings; this was announced by the government or the Reserve Bank of India in quarter 3 only. When this was announced in quarter 3 the company has received the benefits starting from 1st April 2015 to 31st December 2015 for 9 months in Q3 only. So, all the benefits which was pertaining to 9 months has been taken into account in Q3 that is why the expenses are less. In Q4 we were accounted for only one quarter benefit that is why the expenses have increased. Comparative terms showing an increase.
- Ashok Lodha:** 9 months benefit you have debited in December and then ..
- J.K. Jain:** We have received Rs. 6.5 crore full year, out of this 3 quarters benefit has gone to Q3 and one quarter benefit has gone to Q4 that is the reason for increase.
- Ashok Lodha:** This tax expenses have also gone upto 16.6, I believe there is some deferred taxes is included in these?
- J.K. Jain:** Yes, deferred tax is included, definitely.
- Ashok Lodha:** Although your debt equity ratio is still quite high about 2.5 but you have managed to reduce the loans, short term and long term borrowings by Rs. 70 crores this year, can we expect further reduction of loans in coming years, since no CAPEX is there, as you have referred in introducing paragraph, so can we...
- J.K. Jain:** Yes, last year we repaid about Rs. 65 crores of the term loan, during this current financial year 16/17 also the repayment is almost the same. So definitely the finance cost is going to be lower and borrowings will get reduced.
- Ashok Lodha:** Okay sir last question on the joint venture with Treves S.A., France automotive textile that is joint venture company we are holding 50%, is Banswara Syntex holding 50% in this?
- Ravindra K Toshniwal:** Correct.
- Ashok Lodha:** What is the size of this joint venture company sir?
- Ravindra K Toshniwal:** It is very small.



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- J.K. Jain:** Equity is Rs. 7.2 crores, Banswara contributed Rs. 3.6 crores.
- Ashok Lodha:** It is a small company what I understand from the presentation that you have got some approval from automotive manufactures for this fabric and further you are likely to get some approvals, indicated in this quarter presentation or yearly presentation so that approval of the vendor of the automotive fabric, it is being done in Banswara Syntex or joint venture company?
- Ravindra K Toshniwal:** Joint Venture.
- Ashok Lodha:** Banswara Syntex is not manufacturing automotive textile?
- Ravindra K Toshniwal:** We are making it in the joint venture which we are 50% partner. See, what happens typically in the automotive industry, is that whoever is the final OEM he has to approach the final brand, so like I say we have biggest business with Renault at this moment because we are with a French company and they have a great relationship with Renault, so Renault we are selling for the Kwid car and many other cars that Renault makes. So for each model of the car we have to get our fabric approved and qualified and as long as that model remains in production the fabric they will buy will only be from us. So, every breakthrough that we get in our adoption of our fabric for each model is like securing a long-term order for as long as that car is being manufactured.
- Moderator:** Thank you. Our next question is from the line of Darshit Shah of Nirvana Capital. Please go ahead.
- Darshit Shah:** I would like to know some past details about the company since 2011-12/15 we did a significant CAPEX around Rs. 425 odd crores, so can you run through what was the logic behind such a huge CAPEX and working on almost lot of it was debt funded at one point we had almost debt of around Rs. 560 crores versus Rs. 160crores equity, so what has changed now post all of this CAPEX that has done on the last 5 years?
- Ravindra K Toshniwal:** Yes, so if you look at Rs. 425 crores that we spent between FY10-15, we spent about Rs. 200 crores in spinning, we spent Rs. 132 crores in fabric; we spent around Rs. 40 crores in garmenting and spent about Rs. 50 crores in the power unit. That is more or less the breakup. The power unit setup you can well understand that was a Rs. 50 crore expense which was made for the power unit. Garmenting as well you understand because garmenting is growth area which we needed to fund. The expansion that we made of about Rs. 350 crores in spinning and fabric that was in worsted spinning and expanding the spinning capacity as well as in the fabric capacity expansion and processing expansion. So, at that time when we made the expansion we had a joint venture going with Carreman of France. We were doing very high value added business with the company called Coach and we had moved in to lot other businesses in Europe so with women's wear fashion with Carreman and growth prospect looked really encouraging for us, so we went out quite bullish thinking that we will expand in



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all these areas and we will be able to use these new capacities. Unfortunately, the worsted spinning took some time to establish, as worsted spinning is a very difficult thing to get penetration that took a little bit time as well as we also had the challenge of Carreman wanting to leave India and go to China and that for different reasons. I have explained this in many other calls which we had about the story, etc., but rather than to get in to that past, we can say that we actually have evolved, learnt and through all of these investments that we made, now stand to be into a position that is much more stronger for us with much more diverse product mix at a larger turnover to get back to the EBITDA margin that we used to have in 2010 and that remains our focused objective.

Darshit Shah: And sir obviously so last 3-4 years if you look our revenues have almost not grown in single digit from around Rs. 1,113 crores, for FY13 currently around Rs. 1,270 crores, so now since everything has been streamlined what kind of revenue growth do you see, now we are entering territories like Japan and all, where you see good future potential, so can you just throw some light on that?

Ravindra K Toshniwal: So, this scenario globally for growth at retail remain very grim and this is a challenge but in situation where there is an oversupply in commodities and commodity prices in general are falling, particularly in synthetics the prices seems to fall because the prices of crude having dropped as well as when you see an oversupply situation of many commodities and a slowdown in retail space in India, in the overall textile part with a lot of people having lost money in ecommerce it was being funded through shareholders who we were paying for a lot of the shopping, so this situation has made challenging to increase turnover and still make money, you can increase turnover but not make money. So, increasing with topline has not been our focus, increasing the bottom line is our focus and this is where we remain very fix because whether we improve topline or not, I do not know but I know for sure we will improve the bottom line consistently and this is possible for us because we are doing a lot of innovation and what we have done in terms of our investment, allows us to sell products that can command the premium from customers, even if we produce less.

Darshit Shah: Got it, so sir I assume that the margins certainly which we are seeing would gradually improve and will be inching towards 16-17% that is the aim what we had in FY10-11, so do you think the prices of crude impact us or it would not to this extent at this point of time?

Ravindra K Toshniwal: No, see I wanted you to understand and for other investors as well because the thing is that when you look at the fact that we have a higher employee cost than all our peer group and we have a higher finance cost than all our peer group and if you look at the overall expenses that we have maybe in terms of the overall CAPEX also which has been also fairly large and the turnover being small, yet we manage to get an EBITDA that is 13.5% and so it is anyway we are in terms of the raw material percentage compared to the finished goods product that we are making, we are getting a higher margin than others and therefore we are value adding in comparison to others. We need to value add a little bit more and increase the topline also, both



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are important and we are focusing exactly on that because the challenge is in being able to segment and create new marketing operations, we can still extract value from the customer and this requires very focused segmented marketing teams and that has been the software challenge to be able to roll out those teams, create those product lines and have those differentiations and attract those customers but that is happening now. So, we have always been getting a very good response from customers and we continue to get that and lot of support from our customers and they are very encouraging to us because we have innovation and we just have to find ways to convert that support into actual sales in a way that is going to happen by streamlining our product mix and finding ways to deliver it at a faster response time because fashion has changed, fashion has become fast fashion and fashion has become one where they value innovation but they value innovation at speed and drive.

- Darshit Shah:** So, even if that kind of growth would have been somewhere 40-50, even if inches up, I do not think at this point of time it is not going to impact us much?
- Ravindra K Toshniwal:** No, in that way we are pretty anti fragile, we are robust in that sense.
- Moderator:** Our next question is from the line Chitragda Kapoor of Samiksha Capital. Please go ahead.
- Chitragda Kapoor:** Sir I just wanted to understand very interestingly your CAPEX in the past 5 years you have given a data and your sales in accordance has also increased by about 2x in the last 5 years. If I have to look at your long-term, you know, scenario, so for the next 5 years, how do you view your company now, where do you want to reach?
- Ravindra K Toshniwal:** Next five years is rather a long horizon in that sense but let say if you are looking at the immediate 2 or 3 years, we want to increase of about 10% to 15% every year on our turnover but we would like to improve the bottom line, much more significantly. So the improvements could be 40%, 50% improvements in the bottom line and like with the 10% turnover, because we are thinking of doing more value-added products and at some point within the next 2 to 3 years, we are revolving our strategy to be overall much more globally present and that means that we have to look at opportunity that may arise for us in Vietnam, in Ethiopia, in other countries where we can possibly have manufacturing bases which can do some of the specialized products that we make here so that our customers can get delivery of those goods at different locations in the world. Right now, we have one location to deliver goods globally. We need to have multiple locations, because this is the way the world is getting to be so we want to be a premium supplier to the best of brands or garments or fabric in a way that allows people to get value retailers and brands and for that we are providing the products which are going to help them to be in the fashion business, so we want to be a key player in that and that could mean that the turnovers can be really huge but we have to leverage it with multiple different operations not just based in Banswara. The growth in Banswara is limited as the location and we have to find new locations and new areas to expand, Banswara has been a great center for



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being able to develop different technologies, we have all of these innovation developed and we have to scale it up in different locations.

- Chitrangda Kapoor:** Great, sir follow up on this. Since you have mentioned that most of the CAPEX is already done, sir if you are looking at a 10% kind of an increase in your turnover going forward for the next 2 to 3 years that means you are expecting your asset turns to improve to almost 4x considering your 4x is calculated based on your 425 CAPEX figure that you have mentioned, so is that a correct assumption or are you planning to do more CAPEX.
- Ravindra K Toshniwal:** No, see we are just doing little modernization, not more CAPEX as such, little bit is there but we are doing about 35 to 40 crores of investments every year, that will continue, but in terms of the overall loan we will be repaying back about 70 to 80 crores, so we will still be reducing the debt by about 30 to 40 crores every year.
- Chitrangda Kapoor:** 70 to 80 crores of debt you will be reducing every year is that what you said?
- Ravindra K Toshniwal:** It is a repayment, talking about the repayment of the secured creditors.
- Chitrangda Kapoor:** Okay, so my second question then sir is that on your yarn production, it is currently at 35,000 tons, sir which is as per my calculation has increased by 5% this year, so any CAPEX done there.
- Ravindra K Toshniwal:** No.
- Chitrangda Kapoor:** Okay, so it is basically efficiency improvement?
- Ravindra K Toshniwal:** Yes, efficiency improvement or even value-added products.
- Chitrangda Kapoor:** Okay, so what is the utilization right now of that capacity we have?
- Ravindra K Toshniwal:** Yarn, it will be around 90%, but most mills run at 95% in yarn.
- Chitrangda Kapoor:** Right, so you will have to undergo a CAPEX then going forward?
- Ravindra K Toshniwal:** I mean we have a margin to increase 5%-10% turnover without increasing CAPEX, even in yarn.
- Chitrangda Kapoor:** Okay, sir you have told me the production of fabric, not the capacity of fabric.
- Ravindra K Toshniwal:** Yes, again in capacity terms, we are at this moment utilizing only about 80% of our capacity in fabrics and we have still a scope to go up to 95% to 97% utilization and plus there is always job work possible outside for the commodity kind of production.



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- Chitragda Kapoor:** Yes, I have noticed some purchases which is there.
- Ravindra K Toshniwal:** So, there is job work which we want to do outside and we want to leverage outside capacities to be able to get turnover also.
- Chitragda Kapoor:** Sir final question is on your FY16 if I look at your inventory days have actually decreased, so what has resulted to that efficiency I mean why has inventory days decreased, it is a bookkeeping question.
- Ravindra K Toshniwal:** J.K, what is your assessment of that.
- Chitragda Kapoor:** It is from 100 days it has come down to 85 days.
- J.K. Jain:** There are two impacts, one is the overall reduction in the inventory that has caused all these, because in the last quarter alone if you look at there is a reduction of about 30 crores in the stock in process and finished goods.
- Chitragda Kapoor:** Finished goods inventory, okay.
- J.K. Jain:** So once the inventory reduces, overall inventory days will go down definitely.
- Chitragda Kapoor:** Understood but why was there a pile up of the finished goods inventory in the first place.
- Ravindra K Toshniwal:** Yes this is because of the diversity of our product mix, sometime we are left over with stock. And sometimes we do have stocks that land up in different diverse product mix lying with us and so if we keep cleaning up the stock, we will have better inventory turns.
- Chitragda Kapoor:** So this was normal business operation, not a one-off that is what you say?
- J. K Jain:** Yes, it is normal and it will continue.
- Chitragda Kapoor:** About 85 days is the standard inventory days for you?
- Ravindra K Toshniwal:** It could be better.
- Moderator:** Our next question is from the line of Abhishek Shah of Nirvana Capital. Please go ahead.
- Abhishek Shah:** Yes, I have just two questions. One is that tax rate is slightly higher than the 33%, can you just explain that fully for us.
- J.K Jain:** I could not listen the question.



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- Ravindra K Toshniwal:** Tax rate he is saying is higher at 35% compared to the 33% normal, so why is our tax rate higher than others.
- J.K Jain:** You see there are tax implications of direct tax and second is deferred tax liability, so during this financial year, we have done one rectification and the deferred tax liability which used to be calculated considering this thermal power plant as temporary difference because of the 80-IA benefit, now that correction has taken place and that accounting has been done. If you look at the tax percentage of last year or until the last quarter it used to be even higher and all these corrections that were needed have been done and the tax rate is now around 35% and in future also it will continue to be around 34% to 35% which is the normal tax rate for the companies.
- Abhishek Shah:** Sure sir and sir what will be the impact of TPP on us if at all.
- Ravindra K Toshniwal:** TPP is basically for the US buyers and for the one's in the TPP country to trade with each other and our sales to the US may be about 150 crores altogether but it is such specialized products so they don't normally get manufactured in the TPP countries. So we do not see an impact to a large extent due to TPP but we are exploring opportunities in Vietnam and in Ethiopia and other places because we see long term growth in the natural fiber business which say wool or cotton will be fine to be in India and TPP does not have any impact. But in the synthetic, TPP's impact will improve and increase as time goes by and the TPP kicks in, that point for synthetics we should have locations outside of this country in TPP areas to take advantage of that.
- Abhishek Shah:** Okay sir, at some point in the future you will look at some capacity outside India.
- Ravindra K Toshniwal:** Correct, that is just strategic because in terms of global supply chain logistics and all of this protectionist policies that most countries have, it is important to look at that.
- Abhishek Shah:** Sure, and sir as per the nominal CAPEX is concerned around 35-40 crores you mentioned. If we look at the cash flow, if we just add the process for this year and the depreciation that we have around 60 odd crores that itself should be more than sufficient to take care of our CAPEX next year, so would we make to take any more debt to fund that CAPEX because that is very normal and small amount of CAPEX compare to our past?
- Ravindra K Toshniwal:** Yes so we are not going to take too much I mean it is going to be very small amounts of debt that we take, overall there will be a reduction in the long term debt continuously.
- J.K. Jain:** You see there are two impact; one is if we borrow for the fabric manufacturing and garmenting business there we get the benefit of TUFs and if we increase this capacity then there is an interest equalization rebate as well and considering the fact that we are getting the finance at a lower rate it is better to borrow right now; if we do the CAPEX and borrow for this fabric and garment business that would be cheaper than utilizing the internal resources for the CAPEX



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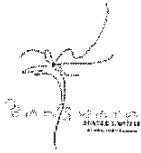
and then utilizing it for the working capital, it is better to utilize for the working capital than to do utilize that margin money or the earned capital for the fabric and garment investment.

- Ravindra K Toshniwal:** So reduce the short term borrowing.
- J.K. Jain:** Yes that is more beneficial for the company.
- Ravindra K Toshniwal:** Reduce the short-term borrowing with the retained earnings and take the long term loan at a TUF end and lower interest rate.
- Moderator:** Our next question is from the line of Deepak Poddar of Sapphire Capital. Please go ahead.
- Deepak Poddar:** Sir you mentioned that you are looking to reduce debt by about 60-65 crores within FY17, so what kind of interest run rate we are looking at on a quarterly basis?
- J.K. Jain:** Actually on these loans the average rate of interest that we are paying is about 8% on these term loans because these are the loans which were borrowed under TUF so the repayment would cover 8% annualized cost.
- Deepak Poddar:** So basically our net debt as of now stands at about 540 crores may be at 60 crores if we repay so by year end we would be at about 480 crores kind of a rough cut number. So on an average if we had about 500 crores at 8% would only stand at about 40-50 crores but your interest cost is much higher than that right at 70 crores.
- J.K. Jain:** Yes all these loans are not at the 8% because there are certain working capital borrowings as I explained is at around rate of interest of 11.5% also, term loans under TUF are around 8% and the working capital borrowings for export of fabric and garment is at around 7.5% but rest of the things are around 11-11.5%.
- Deepak Poddar:** Okay, so what I was trying to understand is that 17 crores that interest cost we did in this quarter so is that the going forward rate or we can see some decline on that?
- J.K. Jain:** It will decline definitely.
- Deepak Poddar:** Okay, it will decline, okay sure.
- Ravindra K Toshniwal:** If we can improve the credit rating of our company we have a significant advantage to gain in terms of the overall interest rate and that is our endeavor. We want to move into a better rating which can be achieved either by getting more equity into the system or by retaining the earnings and not borrowing more.



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- Deepak Poddar:** Right, I understood and my second question is on your margins' front like in this quarter we had about 13.6% EBITDA margin right, so going forward do you think it is sustainable given the crude prices are going up and you mentioned that power cost benefit also might go down?
- Ravindra K Toshniwal:** Not only is it sustainable it has to be improved and we will do everything possible to improve it because we were at 17.1% EBITDA margin in 2010-11. So we have achieved that with the same company and there is no reason why we cannot come back to that similar margin. We understand how to do that but we just have to do it at a bigger scale, and I think all of the directions we are taking and the strategic initiatives we have taken hiring the design team, the marketing team, we are spending a lot of money in the fact that we are paying a very high employee cost to really develop this market in the way we want to, that will begin to show results and we will start to improve our EBITDA margin.
- Deepak Poddar:** So if you have to identify 2-3 key factors which would drive that, what would that be?
- Ravindra K Toshniwal:** Being in the business of fashion and allowing your customers to make money, if you allow your customers to make money and give them innovative products that they can sell at higher prices they will pay you. I mean if there is nobody who pays you they do not make money out of you, but we fortunately have the innovation to be able to give them that space, and that is what we want to exploit, it is not just about us buying the cheap commodity and therefore riding the commodity cycle, but it is that we are in the space of being able to continuously learn and innovate because we have the customers all over the world and a global experience of knowing where trends are going and then positioning our products to deliver the value that the customers need.
- Deepak Poddar:** Right but it would not be easy to increase prices with these customers?
- Ravindra K Toshniwal:** Well I mean you see, when you talk about innovation, innovation is also cost innovation. You have to do innovation and price as this because everybody in a retail space will look at a multiplier and so we work backwards from the multiplier and then we engineer the product to be at the cost price the customer wants but yet to deliver the kind of fashion content or esthetic that the customer needs. That is the skill set we have developed.
- Moderator:** Our next question is from the line of Kalpesh Mehta of KSM securities. Please go ahead.
- Kalpesh Mehta:** I would like to ask that as you said globally the trend is more of garment making as compared to fabric and yarn production. What is our company's vision to have garment turnover as a percentage of the total turnover in next 3-5 years' time?
- Ravindra K Toshniwal:** Yes, but we were little bit disappointed this year with our garment results because the garment growth that we were expecting did not happen and it happened in exports but it did not happen domestically. In fact, domestically if you compare our garment exports last year to this year,



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last year we did 122 crores and this year it was about 99crores. We dropped our garment exports by about 23 crores, and this was primarily because the domestic brands in India went through this terrible cycle because of E-commerce and also the market was changing quite dramatically in India and the whole retail scenario in India is still just evolving and consolidating. It is not yet consolidated in a very good way, so we have now understood what it takes in terms of growing in exports, in exports we actually grew and we increased the turnover by about 15 crores or so about 100 crores went to 115crores, but overall because we lost 22 crores in the garment space in the domestic we did not grow. Otherwise we see about a 25% year-on-year growth in the garment space which we were achieving and this year we think we will get back there and we will want to continue to make investments in garments, we will also want to continue to have strategic supply chain partnerships with garment makers so that we can supply the fabric and then advise our clients who are retailers or brands who use different garment makers and have the supply chain management control for them. We come right from the yarn to the fabric to the garment and we bring lot of capability in terms of how they can use our skill sets to be able to develop fashion and we can suggest to take our yarn, use this weaving, finish it there and make the garment there and you will be fine. And we increase value-added yarn sales in that case or we are saying take our fabric, make the garment there, we do not actually have to make the investments in all areas. We can increase value addition in yarn.

We have not begun to report segmental EBITDA margins as yet because we would see that we will have to be transparent about it in the future, we are considering how we will reveal those numbers because it is all mixed up in our accounting right now. But we want to consider that possibility because we think that we have a large strength in our yarn business and our EBITDA margins in yarn are probably better than most yarn companies, but we have not yet revealed those figures out right and when we look at our fabric EBITDA margins our cost structures in fabric is high right now but the overall EBITDA margins can be interesting and will evolve and continue to improve and if we look purely at CMT point of view from the garment you would not get the value, because CMT does not make that kind of EBITDA margin. But we are able to still make the margin but we have to then consider what is the transfer price to the garments division and then if the fabric transfer price to the garment division is something which gives the normal fabric profitability then the garment division will make a lot of money. So those are the issues which we have to grapple with but essentially talking about the overall EBITDA margin, the overall EBITDA margin will continue to improve, because we have many ways to push this.

Kalpesh Mehta:

So now as you said you have a design center in France and you have been focusing on innovation. So the innovation and all this design center is towards the garment business or it is towards the other segment of the business also?

Ravindra K Toshniwal:

We always look at everything from a garment perspective and a retail perspective. But then it goes backwards, for this retail trend what should be the yarn that supports it. What will be the



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fabric that supports it, what should be the lead time and what should be the supply chain. And then we have to position that at the yarn stage, what innovation we need, what fabric innovation we need and then what garment growth can be anticipated or partnerships made.

- Moderator:** Our next question is from the line of Chitragda Kapoor of Samiksha Capital. Please go ahead.
- Chitragda Kapoor:** Sir, I have a follow up on this fabric division you mention that right now the capacity utilization is about 80%, correct, so that means about a 3.75 million meters is being manufactured per month.
- Ravindra K Toshniwal:** Finished per month yes but weaving is less.
- Chitragda Kapoor:** Correct me if I am wrong, because my calculations suggest that from 5 million metric meters of fabric production capacity in a month.
- J.K. Jain:** That is a process house capacity you are talking about, we have 5 million meters every month processing capacity, when Mr. Toshniwal was saying he was talking about the weaving capacity.
- Chitragda Kapoor:** Okay so processing capacity is separate from this weaving capacity.
- J.K. Jain:** Processing capacity in our company is higher than the weaving capacity.
- Chitragda Kapoor:** And processing capacity we utilize it for I mean I am sorry if you can just explain me that?
- Ravindra K Toshniwal:** At this moment we are even doing some job finishing for others. So if we were to use that capacity for ourselves for more value-added products that is a simple way to increase turnover.
- Chitragda Kapoor:** Okay, sir you doing job finishing for certain clients which you have mentioned in your slide?
- Ravindra K Toshniwal:** No, job finishing we are doing for other people who need extra finishing capacity of the kind and quality that we can deliver.
- Chitragda Kapoor:** Sir, how do you monetize that?
- Ravindra K Toshniwal:** That only goes into finishing charges. That comes as job work finishing charges for the finishing house, but suppose that product was being bought by us and sold by us it would come as turnover increase for the entire fabric. Okay, so that is like getting labor charges.
- Chitragda Kapoor:** Okay this is contractual in nature than would probably every year.
- Ravindra K Toshniwal:** I have to answer your question Chitragda the main issue is like if you are talking about CAPEX you are worried about how much investment we need to be able to increase our



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turnover in CAPEX, we do not need a lot because we have a lot of capacity still available in the whole fabric division.

- Chitragda Kapoor:** Okay so this 80% is already utilized.
- Ravindra K Toshniwal:** 80% is already utilized but the question is what is it utilized doing and how much of that 80% we can sub-contract outside and increase value-added sales inside.
- Chitragda Kapoor:** Okay so how much is that sub-contracting that you do outside currently.
- Ravindra K Toshniwal:** At this moment we have started doing something, but we are going to increase that sub-contracting and we are going to increase the amount of value-added inside.
- Chitragda Kapoor:** So if you can quantify as a percentage of your production how much is the job work that you observes?
- Ravindra K Toshniwal:** It is seasonal, it is month to month it varies and it is difficult for me to quantify, that depends on the requirement.
- Chitragda Kapoor:** Is it okay if I take it offline with you then with this because I need to really understand this CAPEX sir for all the segments.
- Ravindra K Toshniwal:** What is your intension behind understanding this in more detail.
- Chitragda Kapoor:** My intension behind is that I want to model it into my financial model and we have some investment in your company already, it is a small fund that we have.
- Ravindra K Toshniwal:** Okay fine, so you can talk to J K separately on.
- J.K. Jain** Yes, I am always there we can discuss.
- Moderator:** Next question is from the line of Gaurav Goel from BQS Advisors. Please go ahead.
- Gaurav Goel:** How much of your turnover is commodity and how much of it is value-added and what is the ideal mix which you would target, practically or theoretically.
- Ravindra K Toshniwal:** That is a good question and I do not have a numbers answer for it, may be JK does. But continuously I strive and ask that question to each of our divisions whether it is yarn, whether it is fabric or whether it is garments. What percentage of increase can you deliver to me in value added goods and we are always looking out for that part and that is the only way we see of being able to increase the EBITDA margin in the market which is very difficult, because we increase it only through the commodity part of the business it still will not deliver a better



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EBITDA margin right so the numbers I will ask JK to quantify and may be if he has those he can share it now or he can share it with you later.

- J.K. Jain:** We can wait here because that could require some better understanding on what we call as commodity and what we call as value added in that and then I refine these data and we will send it to them.
- Ravindra K Toshniwal:** Mr. Goel to answer your question in a different way we could say like for example if we are saying we want to achieve an overall EBITDA of 17% let say, so we would call value added anything that is more than 15% margin in yarn or an EBITDA of more than 17% in fabric or an EBITDA of more than 20% in garment and then we could define what percentage of each of the segments we are achieving with value-added and which not.
- Gaurav Goel:** Yes, I mean if you can put that is a slide or you can share that could be great at least it would help us. Just get in touch with us, because I think what you are trying to say is that every year passing by your gross margin will increase that is what our intention in this, so if you could just quantify this in a slide or somewhere, and sir.
- Ravindra K Toshniwal:** Yes, good suggestion, we will try and do that.
- Gaurav Goel:** I do not know whether that is possible but if you could rank say in terms of EBITDA margins all the four segments which would be the highest could be recognized something like that or it depends on the ramp up and for you it is not done.
- Ravindra K Toshniwal:** It is kind of challenging doing that in our company but we will work on it and come back with what we can be transparently sharing and which will still be accurate.
- Gaurav Goel:** And when you foresee the next level of growth wherein you might again need to do some CAPEX, do you have a profitability figure in your mind that will stay to reach 17% kind of EBITDA margin go and again match or is it based on revenue what is that would, what is the threshold that you would again think of investing into the business again and not deleveraging.
- Ravindra K Toshniwal:** So we will wait for our net profitability to reach almost about 60 or 70 crores and then think of larger products.
- Gaurav Goel:** And by when do you think this is possible?
- Ravindra K Toshniwal:** You know this is anybody's game, but we are going to try to make it happen as soon as possible. May be couple of years, may be 3 years.
- Moderator:** I would like to hand over the conference to the management for their closing comments.



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Ravindra K Toshniwal: Okay, thank you everyone for listening in and for all your questions. It always helps us to get your questions and makes us think harder about what we need to do. I take this opportunity to thank everyone. I hope we have been able to address all your queries and some of them we will need to come back to you. We have started to see the results of our strategy to focus on higher value-added fabric and garments and yarn and the past few quarters begin to show some fruit. But we do believe that the efforts are yet to show their full potential only in the coming years. For any further information please get in touch with Mr. J.K. Jain or me or with the SGA Group, our investor and relations advisors. Thank you all.

J.K Jain: Thanks a lot, thank you everyone.

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