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Dear Sir,

Subject: Transcript of Q2 FY17 Earnings Conference Call held on 4<sup>th</sup> November, 2016.

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, Kindly find enclosed a transcript of the Q2 FY17 Earnings Conference Call held on Friday, the 4<sup>th</sup> November, 2016. The same is also available on the website of the Company i.e. [www.banswarasyntex.com](http://www.banswarasyntex.com).

Please take the same on record.

Thanking You,

Yours Faithfully  
For BANSWARA SYNTEX LIMITED

  
(J.K. JAIN)  
CFO & COMPANY SECRETARY

Encl.: as above

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“Banswara Syntex Limited Q2 FY17 Earnings  
Conference Call”

**November 04, 2016**



**MANAGEMENT: MR. RAVINDRA TOSHNIWAL – MANAGING DIRECTOR  
MR. J. K. JAIN – CFO, BANSWARA SYNTEX LIMITED**



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**Moderator:**

Ladies and gentlemen good day and welcome to the Banswara Syntex Limited Q2 FY17 Earnings Conference Call. This conference call may contain forward looking statements about the company which are based on beliefs, opinions and expectations of the company as on the date of this call. These statements are not the guarantee 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 the operator by pressing "\*" then "0" on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Ravindra Toshniwal. Thank you and over to you sir.

**Ravindra Toshniwal:**

Good afternoon ladies and gentlemen. Very warm welcome to our quarter 2 and half-yearly FY17 Earnings Call for Banswara Syntex Limited. Along with me in this call I have Mr. J. K. Jain, our CFO and SGA, our Investor Relations Advisors.

Let me take you through the performance for the year till date. First let me speak about the garment performance. Our continued focus is being move up in the value chain with a growing emphasis on garments. The share of garments is raised from 15% of sales in half yearly FY16 to about 19% of sales in half yearly FY17. So there is a 4% increase from the last year in our garment segment.

The segment and this particular segment of garment offers our highest level of value addition as products are tailored specifically to our customers' requirements. Several OEMs we are expanding our client base in existing markets such as Europe and USA and have opened up new markets in Japan, Korea and Mexico. This is the major growth drivers for us with many more possibilities for growth and additional levers in improving profitability. We have been strengthening our marketing team across geographies which along with the global design team, based out of in-house design studios in Paris and in India have seen success in increasing our penetration to all the key markets such as the US and Japan, which house main headquarters of key global apparel brands.

The domestic market also continuous to provide good opportunities in this segment, as we see the market becoming conducive for leading global brands to enter as well as increase their presence in India. For example, the growth in Zara as well as H&M's entry into India. Additionally, we also see Indian brands taking a more global approach in terms of design aesthetic product quality, increasingly the market globally and India is moving towards fast fashion which is being provided by different brands in different ambiance and different price point.



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Fabric and yarn business, our fabric division contributed about 38% of our revenue and we continued to dominate the market for poly-viscose and poly-viscose lycra based suiting fabrics. While our yarn segment boasts of one of the largest single mills set ups producing spun, fiber dyed yarns in Asia and the largest producer of Lycra based yarns specialty lycra based yarns in the country, it currently forms about 40% of our revenue the yarn business. With our strength in yarns and our in-housing processing capacity we have been able to provide customized solution to our customers in fabric and also to provide the necessary inputs for our garment division. Our value added fabrics such as lycra based have been performing well and we wanted to continue to grow them and newer product lines like jacquard fabrics, extreme weather fabrics, automotive fabrics continue to make their presence felt and will be providing drivers for our future growth.

We did see short term growth stifled and headwinds in the past quarter lead by some unexpected raw material price movements that we could not pass on to customers. But the larger picture continues to stay intact, as we continued to increase presence in the global market and the domestic market with our specialized offering and our deliveries. We see opportunities in scaling our garments divisions in line with the global expansion of the fast fashion brands like H&M, Zara and Uniqlo, which are not only growing in popularity and mass appeal but they are also pursuing aggressive expansions strategies all over the world including India. We hope to strategically align with such global players by improving our supply chain with multi-point delivery. We also working on optimizing our business chain, a supply chain let's say with the shorten delivery cycles and without compromise on quality. These, we believe would help us to be a preferred supplier in a business partner from global and Indian global looking brands.

Our aim is to achieve global partnerships by positioning Banswara Syntex as a value added B2B brand by providing design solutions and doing these at the best possible lead times. In line with this vision we have our own design studio in Paris to tap the European markets and the international trends, essentially we are associated with very skilled set of people who understand global fashion. We also have marketing teams based out of the USA and Europe to help grow the international business and be on the floor for the customers.

There is no major CAPEX plan for the next few years and our debt repayment is progressing as per schedule. Now I would like to hand over the line to Mr. J. K. Jain to update you on the financial performance of the company.

**J. K. Jain:**

Thanks Mr. Toshniwal. Good afternoon everyone. The H1 Results are already with you as just quickly take you to the H1 Results. The revenue for H1 FY17 stood at 622 crores as against Rs. 616 crores in H1 FY16. During H1 towards the top-line yarn contributed about 40%; fabric contributed about 38% and garment 19% of the total top-line. The EBITDA for H1 FY17 dropped by about 7% to Rs. 69.7 crores year-on-year basis. The EBITDA margin for the H1



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2017 is 11.2% against 12.1% in the last financial year. The finance cost of the company is reducing on account of repayment of loans and reduction in the rate of interest. The finance cost has reduced from about 40 crores in H1 last year to about 31 crores during this year. It is about 21% less than the last years finance cost. We have paid and provided the full income tax for the H1 which is about 32% of the profit before tax. The PAT stood at 10.5 crores which is about 47% higher than the H1 2016 PAT which was 7.1 crores. The PAT margin is 1.68 %.

Now I opened the house for questions please.

**Moderator:** Thank you. Ladies and Gentlemen, we will now begin with the question and answer session. We take the first question from the line of Ankit Gor from Systematix Shares & Stocks. Please go ahead.

**Ankit Gor:** Sir, my question with regards to tax structure in the entire value chain if you can give us some insight about what is current tax structure in terms of excise, Vat percent, central tax in yarn, fabric division and garmenting division?

**J. K. Jain:** Yeah, basically the excise duty on the textile product is 12% for more or less all the companies and especially for Banswara Syntex, we are operating on non-CENVAT route. There are two options available to the company, one is to take this CENVAT credit of the duties paid at the input stage and pay the excise duty on the output. Since the duty on input and output is same we are using the benefit of the exemption given to the textile industry specifically by the notification where do not take this credit and do not pay the excise duty on the finished products. So more or less from our tax perspective we are not taking the input credit for fiber which is the basic raw material of the company. So we are not paying the excise duty on yarn, we are not paying the excise duty on fabric and similarly on the garments. We are completely on the exemption route.

**Ankit Gor:** In that case, what would be the Vat, it is the normal 5%, is that right, am I correct?

**Ravindra Toshniwal:** 12%.

**J. K. Jain:** Yeah, 12% is the excise duty Vat, central Vat.

**Ankit Gor:** And this is the exercise entire probably most of the people in adopting, right in textile space?

**Ravindra Toshniwal:** In the synthetic mills yes, in the cotton mills it is different.

**Ankit Gor:** And if what we are expecting in terms of GST rates should be applied to textile mills and will it be positive or negative if I can have your comment on it? Thanks.



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**J. K. Jain:** So far the rates of GSTs have not been finalized for the products so it is difficult whether the GST would be beneficial for the textile industry or will not be beneficial because yesterday only we have got the data where certain products have been offered it zero tax rates, certain at 5%, certain at 12% and 18%. So we will have to wait and have the clear list where the textile industry will fall.

**Ravindra Toshniwal:** I just want to say one thing Ankit, in terms of the GST coming in, it will be beneficial for the growth of the brands in India because typically brands in India who will have multi locational in different states like 400 outlets, 500 outlets the big brands have. So for them the stock movement between outlets becomes very easy and it helps increase sales and mobility of products from one outlet to another and this way it will actually help even e-commerce and all other kinds of movements of goods, so from that point of view, I see that this will be beneficial for retail in general. So that should translate back to being ease of doing business across India and making a global market out of India rather state by state. That should be good.

**Moderator:** Thank you. We take the next question from the line of Ameya Pai from Brescon. Please go ahead.

**Ameya Pai:** I just wanted to know few things on the expansion side, what are the expansion plans that companies looking in terms of increasing its revenues because we are seeing that from last few years, revenue growth has been a lot stagnant and my second question would be in terms of ensuring the quality of the products that are supplied in terms of recent news that was heard about another company wherein there was some quality issues and it had to do the supply chain audit and all, so what are the internal controls that are in place in terms of it?

**Ravindra Toshniwal:** So, these are both good questions, I can answer the one about expansion first. Our focus is not to create CAPEX and grow the topline by improving the CAPEX and increasing more capacity. Our focus is to both increase topline and bottom line but more so the bottom line by increasing the sale of the value added products. So we have yarn, fabric and garment which are the three sectors we are in, business and we have decided to improve the value added increase of sales in yarn and fabric and garment. Significantly by almost doubling the value added portion of our businesses is over the next year. That is sell more lycra and fancy based yarns, sell fabrics which have stretch in them and performance and which are more value added and sell garments of more suits and more construction which will get us better margins. So in this manner we will be increasing the topline but marginally. But that marginal increase in topline will translate into a better improvement in bottom line, this is the focus as far as the first part is concerned without making CAPEX and we do not need CAPEX to do that.

Now as far as the second question is concerned, which is about the various regulatory, let us say credibility issues that certain suppliers faced in the supply chain. We have always been exposed to the global market and in fact the globality that we have is been there for the last 20



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years in our company. We will be closing 40 years now and we have approved labs in-house in our own set up in Banswara from Levis Strauss from Mark and Spencer and from H&M and customers like that. So they are monitoring our products in-house and we are doing complete transparency and we believe in complete transparency towards this so the story that we heard was more to do with a decision taken to cut cost by using inputs which would declared wrongly but that we would not do this is not our culture at all and in terms of the quality compliance we have always been improving, we follow Kaizen, we are working now in Japan and we have almost now every month two or three Japanese and Korean customers coming and parking themselves in our mill and we really think this going to be improvement in that area.

**Ameya Pai:** And I would like to get some insights on your capacity utilization across all verticals, so what are your capacity utilization levels?

**Ravindra Toshniwal:** While in yarn the capacity, utilization would be almost 95%, in fabric may be 80%, in garment may be 75%. So we have scope on the both fabric and the garment part to improve further utilization. In fact in fabric in finishing the capacity utilization is may be only 65% but in the weaving it will be around 80%.

**Ameya Pai:** So there are no CAPEX plans as of now?

**Ravindra Toshniwal:** No need for it.

**Moderator:** Thank you. The next is from the line of Harshil Shah from Anvil Research. Please go ahead.

**Harshil Shah:** Can I get average prices for viscose of last quarter as well as the current price of viscose?

**Ravindra Toshniwal:** There has been an increase, what is the exact number J. K. you know? Viscose price increase over the last quarter to this quarter?

**J. K. Jain:** Yeah, will come back to that as soon as we have that number, we can answer this specifically, anything else Harshil?

**Harshil Shah:** And also sir, debt reduction sir, what are the plans for next two years sir?

**Ravindra Toshniwal:** also, automatically since we are not making any significant CAPEX except for modernization and some small machinery for technical improvements we will continue to experience debt drop every year to the extent of Rs. 30 crores-Rs. 40 crores every year, is that right J. K? Anyway, so roughly we will be reducing about 30-40 crores for sure, every year.

**Harshil Shah:** And also the viscose price and wool price I want, so?



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- Ravindra Toshniwal:** Wool price has been increased, viscose prices have increased that is why this quarter has been particularly bad for us because all of the input prices increased and quiet significantly and we would not able to pass it on to customers because we are locked in with customers for six month periods on the pricing, customers being brands, and when we sell to brands we have a price agreement because they already made their retail price and so that is the problem. The next quarter we will start to get the appreciations but it will not happen for this quarter.
- Harshil Shah:** Also sir, if I can get the actual.....?
- Ravindra Toshniwal:** The actual increases , in wool I can tell you from last year to this year they increases about \$2 per kilo gram across an average micron of about 19 micron on so. So wool has increased significantly \$2 per kilo increase and viscose would have increased also by about 40 cents or so.
- Harshil Shah:** But over last days' viscose prices have corrected, if I am not wrong?
- Ravindra Toshniwal:** Yeah, so all this happening affects the demand and supply but generally viscose has been bullish and I think that this will continue to be the trend and a little bit now depends on the petro chemical prices, the oil prices to decide what will happen to polyester because polyester also has shown a little firming up.
- Harshil Shah:** So we import viscose or we source it from Grasim.
- Ravindra Toshniwal:** Most of it is from Grasim
- Harshil Shah:** If I can get the actual price that would...?
- Ravindra Toshniwal:** Yeah, as soon as we get J. K back, you will get you that number may be he has gone hunting for your numbers.
- Moderator:** Thank you. We will take the next from the line of Sudhir Beda from Right Time Consultancy. Please go ahead.
- Sudhir Beda:** Yeah, sir just a question, you have said that we have incurred the CAPEX of last year I think around 400 crores and that CAPEX are not to increase the topline basically but ...?
- Ravindra Toshniwal:** Little bit of top line and mainly it was focused on the increasing the value-added product.
- Sudhir Beda:** So, then your margins should have improved but that is not been seen, even if we factor in increases in the price still your margin has to improve actually because of the value addition that we are talking about or when it will improve like ...?



**Ravindra Toshniwal:** So if you look at the last three quarters the EBITDA margin is actually improving and we are doing things such that there will be very significant scope for further improvement but the headwinds are really been from the market in terms of selling value added products; the amount of value added products we want to sell versus what we have been able to sell has been low. So we been using CAPEX created for value added products to produce lower or non-value added products and that is why the margins are not improving. It the challenge is really to be able to do the marketing of higher value products at the scale we need to do.

**Sudhir Beda:** So, is it possible to have a margin of 14-15% next year?

**Ravindra Toshniwal:** Look, we had an EBITDA of 17% in 2011 when we were at a turnover of 600 crores and now at a turnover of 1,250 crores our margin dropped to 11.2% to 12%. So we will come back to it but the question is about stimulating demand for more value added products at that new peak level of double the turnover or triple the turnover and this just takes time because we had a partnership with French company Carraman which we dissolved about three years ago, the joint venture. That helped us to get lot of traction in terms of getting more value added products so we are looking for and exploring for new partnerships in terms of the marketing arrangements.

**Sudhir Beda:** I am just asking about the next year is it possible that we can get back to 14-15 kind of trend?

**Ravindra Toshniwal:** I do not, I mean like we trying but it depends on how strong the headwinds are, its a little early to say that. We are committed to come back to the 17% over the longer period at whatever the new turnover may be at that time and we will continue to make our efforts in that direction. We do not want to increase significant CAPEX but we do want to explore marketing partnerships and joint ventures in Europe, in Japan and Korea and even in Vietnam where we can find ways to increase the pricing with the customers because see, pricing with customers depends on many things and one of them is the supply chain in availability with increasingly the whole fashion industry moving towards fast fashion. What has become very critical is this speed at which delivery is made. This is really causing us to change our entire way of working in a very different way.

J. K are you back? Did you manage to get wool viscose prices increases? The raw material price increase over the last Q2 is I guess the concern of.

**J. K. Jain:** I will just give you the prices. Yeah it is the major concern because the raw material percentage has increased as the production value itself has increased by about 3% and that is the main reason we could not pass on this price increase because we normally keep the orders in hand and it becomes difficult to pass on the prices which are recent changes.

**Ravindra Toshniwal:** Yes, I explained that already so just give us the numbers on that.



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- J. K. Jain:** I am just getting these numbers.
- Ravindra Toshniwal:** So, no problem. The next question please.
- Moderator:** Thank you. We take the next question from the line of Ujwal Shah from Quest Investment. Please go ahead.
- Ujwal Shah:** Just wanted to understand what proportion of our revenue comes from UK and considering the Pound depreciation that has happened over last 3 to 6 months, what kind of negotiations on the customers doing at their end and what kind of an impact could it have on us?
- Ravindra Toshniwal:** Yeah, out of our total export fabric turnover and garment turnover, when we look at the fabric and the garment business together is about 650 and 200 about 850 crores. Out of that, 850 crores the UK is not bigger than 50 crores. So it is not that significant. Having said that most of the customers in UK are experiencing some sort of inflationary pressure which is from any wherever they may import from is not specific to India, China anywhere. So there we engineering the products to be cheaper, not necessarily the prices will drop on old products, where the products remain the same we will not be giving them a discount. They have to live with the inflation and lately what I am hearing from the UK is that the Pound again Pound appreciated over the last 2, 3 days and again there is all this process of going back to Parliament for the Brexit which the court has ruled, the High Court, now they going to Supreme Court and you do not know what will happen. But at the moment the Brexit itself is in a flux. So we do not know.
- Ujwal Shah:** And sir secondly, considering we are into garmenting and the recent duty draw back the government has come up with, so will be getting that 3.5% duty draw back benefits as well?
- Ravindra Toshniwal:** Yes, definitely.
- Ujwal Shah:** And that will directly slow down to the EBITDA levels of garments right?
- Ravindra Toshniwal:** Yes, in fact that is why we have set a very ambitious target of growth in the garment business. The garment business we expect to increase our turnover 25% year-on-year for the next 4-5 years, every year.
- Ujwal Shah:** And sir what kind of margins you would be making specifically for our garment business?
- Ravindra Toshniwal:** It depends. There are like better product margins and lower product margins but overall I would say in a garment business we should get an EBITDA of 17%, 18%.



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**Ujwal Shah:** Sir, lastly in FY16 we saw our garmenting remain flatish to a slightly low growth, what impacted it?

**Ravindra Toshniwal:** No, there were probably a lot of the changes that happened in the domestic market at that time. The domestic market sales was very bad and we are almost 50-50 between domestic and export. Last year was really bad because of all the e-commerce and everything for our domestic brands which we sell to like Allen Solly, Louis Philippe, Van Heusen, Park Avenue, and Blackberry all of the brands in India did pretty badly last year. They seem to be coming back now and also our overall growth this year what we are talking about half yearly for garment has been good and also the next half looks goods, in the order book looks good so we should achieve our 25% growth in the garment business over last year at the end of this financial year.

**Moderator:** Thank you. We will take the next question from the line of Gurmeet Singh from Prudent Equity. Please go ahead.

**Gurmeet Singh:** I just wanted to know since there is 12% rise in employee benefit cost and which have hit the margin and you have mentioned in the presentation that you have hired new employees and there is an increment in salary of the employees so could you give us the brief of the breakup of the employee cost like how many you have hired and will this cost be recurring from?

**Ravindra Toshniwal:** Yeah, Gurmeet, one thing is that as we increased our garment turnover as percentage of employee cost will continue to increase because garmenting employees more people. This quarter there was about 16% increase in the garment production so as we increase the garment production the component of employee cost is likely to increase. And the other thing is that we have added on a lot more people in the export front in Europe in our design office and design studio and knowledge based workers, people we have hired at higher cost because we are working towards brand stories that we have to create and we are also hiring a set of set to create our own brand if necessary so we have hired a lot of people whose results will come down the line because we are creating our teams to increase the value addition in yarns sales and fabric sales and garment sales as well as build a brand so towards all these areas a lot of employee cost is added on and will show its results when the value added sales increase but we do not intend to cut that, we do not think cutting the employee cost is a solution here.

**Gurmeet Singh:** So, will this be a new normal like the EBITDA margin in the June quarter was 13 point something and now it has come down around 11%, so will this be what we should be consider?

**Ravindra Toshniwal:** No, it is not because of the employee cost it came down, came down because of the increase in raw material cost that we could not pass on.



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- J. K. Jain:** I will just give you the number which was asked in the previous question. Here for example, viscose which was the Rs. 144 in the month of April has increased Rs. 154 in September so there is about Rs.10 increase in per KG.
- Ravindra Toshniwal:** Percentage wise that would be about 7%, 8%?
- J. K. Jain:** Yeah, that would be about 6% increase and in terms of wool also, the wool was about Rs. 700 Kg in April which is gone to Rs. 850, 20% increase there, in wool.
- Ravindra Toshniwal:** So these increases of 20% in wool and 6% in viscose and some increase even in polyester prices as well as the increase in the fuel cost and our power generation cost have increased all our input costs and therefore you will see the raw material percentage of our turnover has increased. This cost will be passed on this will be passed on in the next quarter because we work with customers on a six-month price fixation.
- Gurmeet Singh:** So we can assume that this is not totally because of employee cost, the fall in the market?
- Ravindra Toshniwal:** It will definitely not. Employee cost is not the contributor to that. Our employee cost is always been higher than our competitors.
- Gurmeet Singh:** So this margin will come back to the previous margins?
- Ravindra Toshniwal:** Yes.
- Moderator:** Thank you. The next question is from the line of Arjun Saigal from Reliance Mutual Fund. Please go ahead.
- Arjun Saigal:** Just wanted to clarify, you said you will be passing on the input cost next quarter do you mean the December ending quarter or the March ending quarter?
- Ravindra Toshniwal:** Well, some of it will be passed on in December ending and most of it will get passed in the last quarter, yes. So, there will still be a little rougher patch in terms of passing on the prices even in the next quarter because prices have to be held for six months with our brands but in the reverse cycle suppose raw material prices fell there would be no decrease in price either. Usually when you look at our last quarter, last quarter is usually pretty good; historically the first half year has been poorer than the next half year.
- Arjun Saigal:** Second question, is on your like you said as trend of fast fashion in garments, so my question is can you tell us what kind of margins are there in fast fashion, that is one. Secondly what is our comparativeness vis-à-vis other suppliers that we are aspiring to be, global; suppliers, what are our short comings or strength vis-à-vis them if you could give us some light on that?



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- Ravindra Toshniwal:** So, yeah, fast fashion is something we understand well because of the fact that there is globality to it and we have been in global markets with our turnover 50-50 between global and domestic and what we sell in the domestic market is based on our designing for global trend. So as a company we have never really designed for local markets, we have always designed for global trends and this gives us a unique positioning in terms of understanding where trends are going in fast fashion which is why when it comes to customers like Zara they would first come to us in India for many of the articles that we make which go into their product mix, let's say, for the suits part, for the more tailored clothing part, because we do not do T-shirts and we do not do many of this things that they put in the stores but what they do and we make, they will prefer us over anybody else because we are right within that pipeline and we do understand that market very well. In fact now Zara and ourselves are great talks in Madrid, in their head office in Spain where we are talking about doing work for them and hopefully we will make a big break-through but it will happen not just for India it will happen for global supply. The same thing is true whether we talk about Uniqlo or H&M or many other fast fashion brands the growth of this fast fashion business as such is a life style thing where people look upon fashion as being almost like something which you wear for a particular season or event and then you dispose it off and it is like disposable fashion which you renew every time so it encourages the customers to come to stores more and buy more but they do not buy for the longitivity of the garment. They buy for the fashion.
- Arjun Saigal:** So, most of your sales right now are fast fashion?
- Ravindra Toshniwal:** A lot of them are not fast fashion but we see the biggest growth happening in fast fashion.
- Arjun Saigal:** So, right now as a percentage of garment sales what it would be?
- Ravindra Toshniwal:** I do not know, I cannot answer that question off hand. That is only a hunch.
- Arjun Saigal:** If there is any margin difference would in your domestic garment business and exports
- Ravindra Toshniwal:** Generally not that bigger difference, no. Both are similar and we like to be 50-50 in both because you never know that can happen to each market.
- Arjun Saigal:** And in terms of our competitiveness in terms of lead time?
- Ravindra Toshniwal:** We are pretty good because we are vertical. We do everything we do yarn to garment all the whole supply chain is with us.
- Arjun Saigal:** Vis-à-vis potential suppliers in other countries?



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**Ravindra Toshniwal:** Our number one biggest competitor is China now, Vietnam and in terms of Europe it is Morocco and in Turkey.

**Moderator:** Thank you. We take the next question from the line of Dhiral Shah from GEPL Capital. Please go ahead.

**Dhiral Shah:** Sir, my question is regarding sir what is the raw material inventory days?

**Ravindra Toshniwal:** Raw material that we hold number of days, it will be different for polyester, viscose, wool, acrylic and each one of them. Do you have an average?

**J. K. Jain:** Yeah, roughly the polyester we normally have about 20 days inventory, viscose we have about 40 days because we are most 100% dyed yarn manufacturing company and we have to store the dyed viscose from Grasim, therefore the inventory holding period for the dyed viscose is bit more. Wool as it is an imported item the holding period is more than 90 days for the wool.

**Dhiral Shah:** Sir, then, if you say can current quarter there is wool prices are gone up by 150, viscose prices are gone up by around Rs. 10 so in these quarter only your margins have impacted it should be a lag effect?

**Ravi Toshniwal:** Yeah, we are talking about the prices which have been going up even before that.

**Dhiral Shah:** You do not have any low cost inventory?

**J. K. Jain:** Yeah, it is when we are talking about the increase starting from April and the first quarter when we have consumed inventory which was bought at the lower price as impacted as lower raw material consumption on the production value and the gain is gone into Q1 when we are using the first in first out method, the increased prices have started to flow into Q2 and as Mr. Toshniwal is rightly said that this pass on will continue in Q3 and Q4 also. So Q3 will also be impacted because whatever increase that we have received in Q2 will impact Q3 also. So this is first in first out method where in the low cost purchases have been consumed in the Q1.

**Dhiral Shah:** Sir so whatever inventory you have it is of high price right?

**Ravindra Toshniwal:** Yeah, continuing to buy at high price and yet our customers are not paying as per the increase because we are locked into a price for six months of the season.

**Dhiral Shah:** So Q3, we might also see there is dent in the margins right?

**Ravindra Toshniwal:** Yes.

**Dhiral Shah:** And may be Q4 we may recover?



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- Ravindra Toshniwal:** Q4 will recover for sure.
- Dhiral Shah:** And sir, currently your revenue mix is like 40% from fabric, no 38% from fabric, yarn is 40%, garment is 19%, so do you have any ball mark figure to take this fabric and garment may be towards higher contribution has compared to yarn?
- Ravi Toshniwal:** Yeah, see because the garment is growing at a rate of 25% as we have projected now and the fabric and the yarn business will only grow at 6%, 7%. So that way we will continue to get higher amounts of turnover coming from garment and fabric as compared to yarn.
- Dhiral Shah:** So you have any ball mark figure currently garment is contributing 19% so may be by FY18 or FY19 and ....?
- Ravi Toshniwal:** You can take the numbers. You take our turnover at the end of this FY17 whenever we are there or even at this FY half yearly and the half yearly turnovers you can take and then you can project 25% growth on the garment and project 6%, 7% on fabric and project a 5% on yarn growth.
- Dhiral Shah:** So automatically garment contribution will increase?
- Ravindra Toshniwal:** Yeah, continue to increase.
- J. K. Jain:** In the top-line the total contribution of fabric and garment which is now around it is 56%, 57% of the total turnover that will continued to increase with the increase in the turnover of the garment business.
- Dhiral Shah:** And sir lastly regarding our debt you said you are going to repay something like 40-50 crores what is your current debt, short term and long terms is 500 crores, so 40 crores repayment will not result in lowering your debt to equity substantially?
- Ravindra Toshniwal:** That is the maximum we will be able to repay without increasing further CAPEX so that burden of interest will continue to reduce as well as we must use less working capital. So that is, in this supply chain business of fast fashion we will be able to reduce the working capital requirement also. So we are intending to reduce both long terms debt as well as short term.
- Dhiral Shah:** So do you have any ball mark figure in your debt to equity by FY18 and will be something like 1:1.5, may be 1:1 do you have any kind of figure in your mind working right now?
- J. K. Jain:** It is coming down two ways – one we are increasing in retaining the earnings in the company and the second is we are repaying the debt. So FY2016, March16 it was 2.2, it has come down to 1.9 in the six months' period. Similarly if you look at the figure in March 2015 it was 2.76 it



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has come down to 2.2. So, almost 0.5 we are reducing in every year and this is the trend for the last three years, this much I can say, and I hope to continue the same.

**Dhiraj Shah:** And sir lastly, you do contract manufacturing for all Allen Solley and Park Avenue and all those brands?

**Ravindra Toshniwal:** In terms of supplying the whole garment packages, as an OEM, yes.

**Moderator:** Thank you. The next question is from the line of Gaurav Punjabi from East India Securities. Please go ahead.

**Gaurav Punjabi:** You just mentioned that you are looking at a production growth rate of 27% in garment, 5% odd in fabric and even 5% on yarn right but if I look at the top-line it is actually been flat or negative, so if I mend these figures in actually seeing blended growth of about 12% to 13% on the production side, so how do we see 12% to 13% growth in the second half?

**Ravindra Toshniwal:** If you look at garment growth in this FY17 first half year it has been almost 20%-25%.

**Gaurav Punjabi:** So what is the causing the lag that is keeping my revenues flat?

**Ravindra Toshniwal:** Overall?

**Gaurav Punjabi:** Yeah, overall.

**Ravindra Toshniwal:** Because we had an actual negative deceleration in the fabric growth in this quarter.

**Gaurav Punjabi:** And can you quantify that?

**Ravindra Toshniwal:** No, see these things are like probably the wool price increases and the price increase also we have been trying to pass on the prices and not being able to but it also impacts pricing to some extend. Until the prices get absorbed in the market these sales also dropped in a way. So we had a lot of headwind right now for the Q 2 at least. And I think that to some extend that headwind will continue because the prices in the raw material have rising but the expectation of the consumer is to get lower prices there is a challenge that the entire brand chain says.

**Gaurav Punjabi:** So, if broadly if I look at 2017 and 2018 is there any guidance that you could provide for the top-line and for the margins?

**Ravindra Toshniwal:** I mean I would only say right now that we have cautiously optimistic and we will think that at least we should close the year as well as last year but not significantly better than last year. But the next year all of the steps we have taking in terms of improving the product mix and the excitement that we have is based on product development and our globality of understanding





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and design and product development will be fruitful. These responses that we are getting on the range is really nice. Japan has really picked up well as a market for us. The biggest market in the present exports is the USA with about 150 crores exports and Japan we start three years ago almost zero and now we are almost an about 25 crores in Japan. But we think Japan can grow and become as big as the USA in the next 2-3 years.

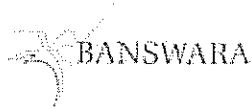
- Gaurav Punjabi:** So, what about hedging, so is this natural hedge which we have?
- Ravindra Toshniwal:** Hedging of currencies? Yeah, we do not do anything except pure vanilla. Whatever orders we have, we sell that many Dollars forward.
- Gaurav Punjabi:** It is purely forwards?
- Ravindra Toshniwal:** Purely forwards. Nothing else, we do not do anything else because we do not understand anything else.
- Gaurav Punjabi:** So, looking at the current trend and whatever we spoken right now looks like the margins would be subdued in the second half of the year also like sub-10% or something?
- Ravindra Toshniwal:** I difficult to say because look our business is something where if we get a fashion hit and we have a few products that take off with big guys and we deal with billion Dollar companies and our customers are very large. If they love something and they pay us the price for it the whole thing can change around. They are price insensitive when they love something. It is just not a costing based contract work that we do, we develop the whole product and the whole thing and we show it to them and they decide what retail price they can sell it and so if they are paying as X then they think they can get 3X in retail and they can buy a lot. They will pay as X regardless of whether that gives us a margin of 25% or 15%.
- Gaurav Punjabi:** So, looking at a trend for your cash flows in the last couple of years, you been generating strong cash flows to the tune of 170 crores, you saying there is not really many much CAPEX plans probably a few maintenances CAPEX so how do we arrive at the 30-40 crores figure, we could easily pay off quiet a lot more is this because you are getting....?
- Ravindra Toshniwal:** There are no earnings, we do not have that much earning right now to pay off more. If we had more earning, we will pay more.
- Gaurav Punjabi:** I am looking at the purely from the cash flow from operations about 170 crores being generated in the last couple of years?
- J. K. Jain:** Yeah, but then there is an outflow on account of tax payment, the payment of dividend and then the margin which is being provided by the company for this small CAPEX that it has done



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or this small loans . What is then left is used for the repayment of the term loans and for reduction in the working capital borrowings. I can just give you the exact numbers also which is being circulated to you in the presentation of the company in March '14 that overall working capital and this long terms debt was 664 crores it has come down to 617 next year. Then 617 are come down to 541 next year.

- Gaurav Punjabi:** Is this including working capital or just long term?
- J. K. Jain:** It is including working capital. I am saying all debts together and in the first 6 months 541 has come down to 509. So the trend is continuing.
- Gaurav Punjabi:** Just a couple of more questions, how much would be the working capital of this 509 approximately.
- J. K. Jain:** About 260 crores is the working capital.
- Gaurav Punjabi:** And effectively are we borrowing any foreign currency or is this....
- J. K. Jain:** No, not in foreign currency, we are in to rupee loan only.
- Gaurav Punjabi:** And what would be the average interest that we must be paying?
- J. K. Jain:** For the long time the company has borrowed under TUF scheme, were in the effective rate of interest is close to about 7.5% and for the working capital now the company is getting the advantage of this interest subsidy which has been offered by the Reserve bank of India for fabric and garment business. So the effective rate of interest for export business has come down close to 7.5% for working capital of the fabric and garments business and for yarn business effective rate is about 11.5%.
- Ravi Toshniwal:** And otherwise domestic interest rate is higher and that would be at about 14%.
- Gaurav Punjabi:** On the export part which is the plant you guys used for exporting, I guess we have couple of plants?
- Ravindra Toshniwal:** No, we have basically 3 locations. One in Banswara itself, where we make the fabric and the yarn and we have the garment locations in Surat and Daman.
- Gaurav Punjabi:** So, both of these are majorly garmenting exports so it is going from Daman.
- Ravindra Toshniwal:** No, our fabric export is much larger than the garment export.
- Gaurav Punjabi:** So it is going from both locations.



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- Ravindra Toshniwal:** Yes.
- Gaurav Punjabi:** So you mention multi-point delivery in your opening note...
- Ravindra Toshniwal:** Yeah, while multi-point delivery what we mean is that we are looking for partnerships like we had with Carraman, because the main garmenting hub is still not India. For the global fashion in the world, the main garmenting hubs of the world are Sri Lanka, Bangladesh and Vietnam closer to us. But India still remains a very small player in world global fashion in terms of garment deliveries also. So, we have to find ways to be able to deliver the product to the garment makers on nomination basis, so what we do is show our fabric collections and our garment ideas to customers. They say okay, this is fine, we love your fabric, we will buy at this price but send it to Sri Lanka, send it to Bangladesh and deliver it to Vietnam. So we are looking at collaborations where we can in stock or inventory of yarn and some fabric in locations like Bangladesh, Sri Lanka, Vietnam and deliver it from there. That is what I mean by multiple points of delivery. In this business of fast fashion for global brands they will produce in multiple locations of the world and need the same product at different parts of the world. This is what we are talking about!
- Gaurav Punjabi:** Do we have any retail outlets or completely B2B.
- Ravindra Toshniwal:** No. Completely B2B.
- Gaurav Punjabi:** So no B2C plans as such right?
- Ravindra Toshniwal:** We have some small retail outlets for just selling our surplus in garments. We have created a sort of like factory store retail outlet. But that is not significant. We are thinking of getting into the retail business and we have hired a company to do an investigative research for us on the brand, sort of the DNA that Banswara would have out of its 40 years of ethos. Then to be able to bring to the market that brand which has some resonance with what fast fashion trends are in the market and what we can deliver. So we are working on that, when we are ready to launch it we will announce it.
- Gaurav Punjabi:** So no time line as such on it.
- Moderator:** Thank you. We take the next question from the line of Viraj Mehta from Equirus PMS. Please go ahead.
- Viraj Mehta:** Just couple of questions, one, when you said that your employee cost will keep rising but on the other side you are saying that you are not running after top-line growth. Top-line growth will be subdued but you also want margin improvement and in a lot of cases increase in raw material prices are not being passed on, or it gets passed on with a lag. Now from an outsider



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point of view, it looks contrary but is a lot margin improvement happens when growing faster and costs being allocated on a higher base, but if cost key pricing and your top-line does not come, then even if you do probably higher value added products if the cost key pricing is lacking, then margin improvement seems difficult.

**Ravindra Toshniwal:**

Yeah I mean see, what you are saying make sense but what you have to understand is that we have 2 options; one is to pursue the top-line growth by adding CAPEX. Now adding CAPEX also is something which is not a desirable thing for us because we already have unutilized CAPEX. So if we are not going to add CAPEX that is not a desirable route or even the worst route for us to follow. What we have to do is very patiently, with great innovation and with whatever we have learned in the past 40 years about the market and our globally, design and product that we continue to increase. For example, I would speak about just the yarn business. In the yarn business we produce 2,400 tonnes of yarn per month and at present we produce 300 tonnes of Lycra stretch based yarn, out of that 2,400. So we are planning to increase out of that 2,400, the 300 tonnes of Lycra based yarn to 600 tonnes in the next year per month. So the moment we increase 300 tonnes of lycra yarn, total will remain 2,400 tonnes only. But we would have value added by increasing our sales of Lycra yards from 300 tonnes in a month to 600 tonnes and that will help the bottom line as well as the top-line but marginally the top-line and similarly in our fabric business we are selling about 4,000 meters of specialty fabrics out of 2.4 million meters every month and that we need to double and we set these targets very clearly now with internal reviews and we think they are very achievable in terms of increasing the sales of value added product. The moment that happens and we have significantly, and by significantly, I mean doubling the amount of value-added products that we sell compared to commodity product, it will help our bottom line tremendously. The growth we will have in terms of the top-line biggest of course will come from garments. And the garment part we do not mind investing CAPEX because there the CAPEX is very low so really most of our new CAPEX investments will happen in the garments.

**Viraj Mehta:**

Sir other thing I want to understand even if I look at the first six months we have seen almost north of 20% kind of growth in garment and I understand that it is on lower base but in spite of that the margins have increased. So, in spite of the product mix improving the margins, I understand we have not been able to pass on raw material prices?

**Ravindra Toshniwal:**

And also fuel cost significantly went up.

**Viraj Mehta:**

So we use cooking coal or you use normal coal?

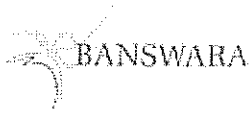
**J. K. Jain:**

No, mainly pet coke. Pet coke and imported coal.



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- Viraj Mehta:** And so going forward when you see the product mix changes and once all of these price increases do take place and I understand will take probably six months then do we see 13.5%, 14% margin by next year?
- Ravindra Toshniwal:** Yeah, why 14.5%, why should it not be back to 17% that we had when we had 600 crores turnover. The point is really to come back to a larger set of skilled people who are able to make and sell both, making part we know what to do and we know how to scale up. But selling more value-added product globally is more of a challenge today. The challenge is in the market place but again we are very small compared to most big global players and once we make something which catches on to the trends of fast fashion and we hit the right trend this growth will happen very easily because the customers are very large, this not such a big challenge.
- Viraj Mehta:** Sure, last question what you say would it be possible for you to comment on the industry as such, do you think the entire synthetic yarn industry was overall hit or was it more ,being company specific?
- Ravindra Toshniwal:** I think that over Q2 most of the entire synthetic yarn industry will be a little challenged. This will continue over the whole year for the synthetic yarn part, yes. Wool is a separate story. Wool is even more challenging.
- Moderator:** Thank you. We take the next question from the line of Ameya Pai from Brescon. Please go ahead.
- Ameya Pai:** Just a few questions. Firstly, what are the credit terms with the debtors and in terms of debtors days I find that the debtor's days have increased in the past 3 years, so can you just throw any light on this?
- J. K. Jain:** See, in terms of the exports, we do most of our business against letter of credit and bank guarantee only, may be the overall credit period is a bit longer with the reduced rate of interest in fabric and garment business in exports but the credit period in the domestic market is different for the yarn business, for fabric business and for garment business. Normally the yarn business is about 30-35 days' credit and in fabric in the domestic market the credit period is about 45 days and in garment it is about 60 days.
- Ameya Pai:** And what about the export side?
- J. K. Jain:** Export side is mainly against the letter of credit and bank guarantee wherein we get the negotiation of the business then through the banks immediately after the shipment.
- Ameya Pai:** So, do you think that these credit terms for the garment side would be lower going ahead or you expect that these are the industrial norms?



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**J. K. Jain:** When you are talking about the increase in the receivables I just explained the way you have seen this shift of business from export to the domestic. My export has reduced in terms of percentage in the overall turnover when I am saying that export is against banks letter of credit and bank guarantee and I get the negotiation of the credit instrument immediately after the shipment so practically in export business my debtor period is just less than 15-20 days because I get the money from the bank, and when I shift my export business to domestic business and domestic credit is between 45 days to 60 days my debtors overall are likely to increase and that is happening. That is a normal course of a business and it is due to shift of export business to the domestic business.

**Moderator:** Thank you. Ladies and gentlemen that is the last question. I would now like to hand the conference over to the management for their closing comments.

**Ravindra Toshniwal:** J. K. would you like to close this.

**J. K. Jain:** So, thanks everybody for all the questions. We have tried our best to answer all these questions and we are looking forward to do better and better going forward. Thank you once again all the participants for your patient hearing.

**Ravindra Toshniwal:** Yeah, I just want to say a few words as well. Just that we really enjoyed the interaction and all the questions and we appreciate the efforts made by SGA to get our whole message out to all of you investors and to have continued interactions with us and we would welcome you to give more detailed questions if any to J. K. so that he can answer them later separately and we do believe in a particular vision of where we are going and we have been consistent toward that vision. Some quarters are not as good as others and we will continue to communicate the good news and the bad news but we do believe that we are moving towards a future in which we will come back to an improved bottom line that we had before but at a much larger turnover and we continue to work in that direction. Thank you everyone.

**Moderator:** Thank you. Ladies and gentlemen with that we conclude today's conference. Thank you for joining us and you may now disconnect your lines.

