BANSWARA

BSL/SEC/22

10th May, 2022

BSE Limited
Listing Deptt.
Floor 25, P.J. Towers
Complex Dalal Street, MUMBAI - 400 001

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National Stock Exchange of India Ltd.
Listing Department
Exchange Plaza Bandra-Kurla
Bandra (East), MUMBAI-400 051

Symbol" BANSWRAS

Sub: Transcript of Q4 FY22 Earnings Call held on 5th May, 2022.

Dear Sir/Madam,

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, we are hereby enclosed herewith a transcript of the Q4FY22 Earnings Call held on Thursday, 5th May, 2022. 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

BANSWARA SYNTEX LIMITED BANSWARA

(H.P. KHARWAL)
Company Secretary & Compliance Officer
Membership No. ACS 28614
Encl: a/a

"Banswara Syntex Limited Q4 FY22 Earnings Conference Call"

May 5, 2022

Disclaimer: E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 5th May 2022 will prevail.

MANAGEMENT: MR. RAVI TOSHNIWAL – MANAGING DIRECTOR, BANSWARA SYNTEX LIMITED
MR. PANKAJ GHARAT - CHIEF FINANCIAL OFFICER, BANSWARA SYNTEX LIMITED

Moderator: Ladies and gentlemen, good day, and welcome to the Q4 and FY22 Earnings Conference Call of Banswara Syntex Limited. This conference call may contain forward looking statements about the company which are based on the beliefs, opinions and expectations of the company as on date of this call. These statements are not the guarantees of future performance, and involve risks and uncertainties that are difficult to predict. As a reminder, all participant lines will be in the listen only mode, and there will be an opportunity for you to ask questions after the presentation concludes.Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touch tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Ravi Toshniwal – Managing Director, Banswara Syntex Limited. Thank you, and over to you, sir.

Ravi Toshniwal: Thank you, Margaret. Good afternoon, everyone. This is Ravi Toshniwal, and I welcome everyone to our quarter 4 and financial year FY22 Earnings Conference Call. I hope each and every one of you and your families continue to remain safe and healthy. I'm joined on this call by our new CFO, Mr. Pankaj Gharat who has come in after Mr. J.K. Jain, and SGA, our Investor Relations advisors. I hope all of you have had the chance to go through our updated investor presentation that we uploaded on the exchanges and on our company website. For the benefit of the audiences who are joining the earnings call for the first time, I'll give you a quick overview of the company followed by a review of the financial performance during the last quarter and the current financial year.

Banswara Syntex, as you know is a vertically integrated textile company going all the way from fiber to garment. We specialize in production of yarn, fabric and readymade garments. Over the years, we have forayed into many markets in over 50 countries, including the developed markets of the US, UK, Canada; Spain, Germany, France, in Europe; Japan, UAE, Turkey and now Korea and Australia as well. We have always been a product innovation focused company considering the choices and aspirations of our global customers. We have diversified offerings in our fabrics as well as technical fabrics. And due to our specialized product range, we managed to service very highly reputed domestic and international fashion brands. We continue to integrate our company into more automation and software, including the SAP/HANA latest system, and our cutting-edge technologies that will enable us to run our factories in a more reliable and cost effective manner.

Now coming to the standalone financial and operational performance of the company. We've reported a strong financial performance this quarter. The total income for the quarter 4 FY22 increased by 21.2% quarter-on-quarter and 42% year-on-year to Rs. 373 crores for quarter 4. Total income for FY22 stood at Rs. 1206.7 crores, an increase of 50.3% on a year-on-year basis. The proportion of our high margin value added business, which includes fabric and garments has increased to 56% of the total sales in quarter 4 FY22 as compared to 49% in quarter 3 FY22, that is an improvement of 7% in our garment and fabric business as a proportion of the turnover. Value added businesses stood at 50% for the entire year financial '22 as compared to 52% in FY21. So, we still have some ways to go in improving our overall value addition. Export sales for FY22 rose to 45% of total sales as against 41% in FY21, with fabric seeing the highest growth within the sales mix.

With the current uptick and revival of demand in quarter 4, we're optimistic of clocking significantly higher export sales in FY23. The capacity utilization for yarn and fabrics division has been stable at about 90% for the yarn division and about 70% for the fabric division for the quarter 3 and quarter 4 of FY22, and it has improved significantly in the garments division. Right now we are seeing the maximum improvement in our capacity utilization and overbooking in the garment division. And I'm happy to report that it was operating at 88% capacity in Surat and 89% capacity in Daman for the month of March. And looking at the order book on hand, the company expects this trend in our garment utilization to continue and we are looking at increasing capacity particularly in garments for which we are already ramping up the labor force and training.

Our EBITDA for quarter 4 FY22 increased by 44.9% quarter-on-quarter and 22.8% year-on-year to Rs. 48.4 crores. The EBITDA for FY22 as a whole stood at Rs. 136 crores, an increase of 47.7% on a year-on-year basis. PBDT, profit before depreciation and tax or cash profit increased by 55% quarter-on-quarter and 28% year-on-year to Rs. 42 crore for financial year 22. We have reported the highest ever profit before depreciation and tax or a cash profit of Rs. 111 crores, an increase of 86.9% on year-on-year basis. The profit after tax for quarter 4 FY22 increased by 58.8% quarter-on-quarter and 15.8% year-on-year to Rs. 19.4 crores. So, it's been a good quarter. And the profit after tax for the entire FY22 stands at Rs. 46.7 crores, an increase of 235.5% on year on basis and almost equal to our pre-COVID profit. The increase in profitability is due to an improvement in margins with more value-added products, significant reduction in finance costs, optimization of inventory due to clearance of older stock items, and of course, the increase in capacity utilization across the garment and fabric divisions. We have reduced our net debt by about Rs. 323 crores over the last 5 years and it now stands at Rs. 262 crores as on 31st March 2022. We have a very comfortable debt-to-equity ratio of 0.7.

Now, let me share some updates on the cost front. These are several areas where we have been able to bring some improvements. The employee cost as a percentage to production value has reduced by about 3.5% in FY22 to 18%. This is largely attributed to various improvement in lean management and manpower reductions during the COVID times. Further steps have been taken to improve our labor efficiency and output. Thereby the company has increased the throughput per employee or the value added per employee.

Power and fuel: While the power and fuel cost going forward is still uncertain as the State Electricity Board costs continue to rise, we did manage in quarter 4 FY22 to reduce the cost as compared to the last quarter. But in general, we see that right now with power shortages across the country, we are forced to run our power plant and the differential costs between State Electricity Board and our power plant has actually reduced, so we do expect that this will help in further helping to reduce our total energy costs.

The finance cost overall has seen a declining trend. And we have been able to get an enhancement in our credit rating to A minus. And we've had a repayment of many of our high cost term loans. And we've availed lower interest rate facilities, so this is helping our overall finance costs. We have great pleasure that the Board has recommended a final dividend of Rs. 2.50 per equity share on a face value of rupees 10 each for FY22. Going ahead, we are very confident about the textile industry growth in all areas, and we believe that Banswara is well placed to capture a good share of this opportunity. Due to easing out of the COVID situation and improved market sentiments, business outlook looks positive, both in the domestic and export markets which should lead to better sales in both our fabric and garment segments while our yarns remained oversold. Our focus is on increasing proportion of value-added products in the total sales mix and to earn higher margins. Order book visibility remains high in both our fabrics and garment segments. And we are focusing on improving capacity utilization, as well as utilizing the capacity towards more value-added products.

Thank you. And I'll be happy to open the floor now for questions and answers. Thank you, everyone.

Moderator: Thank you very much. We will now begin the question and answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles. The first question is from the line of Yash Agarwal from JM Financial. Please go ahead.

Yash Agarwal: A few questions. So, you've seen a very good pickup in utilization on the fabric and garment side. So, just wanted to ask you, from where is the demand pickup coming? And how sustainable is this demand pickup given the current order book that you're having? So, do you expect this trend to continue in the first half of the new financial year that we've seen in the last quarter of the last financial year?

Ravi Toshniwal: So, I just want to say that, in general, what we are seeing as a trend is that there is a greater focus on giving orders in garments to companies that are vertical and the reason is supply chains are disrupted, and we are facing a bigger advantage compared to other companies because we have yarn capacity in surplus, we have integrated weaving facilities and knitting facilities, as well as then we are able to integrate into our garments and give them a lead time that is significantly lower than other supply people and who also face logistic challenges. So, on-time delivery, and even before time delivery with lead time being lower than others. For example, we are able to offer a garment in a tailored clothing suit in 120 days from when it is ordered, where most other suppliers and competitors of ours are now quoting 180 days. So, we are seeing a huge improvement compared to others and we are even cutting this time down further. This is the reason why we believe as a trend, we should be experiencing full utilization at least in our garment division for sure. In the fabric part of it also, we are seeing much more orders coming because a lot of the garments that are being produced from our fabric are the ones which are now coming back in demand. This is the latent demand due to the marriage market and the marriage market with the demographic in India being one where there is a very high bracket of people between the ages of 27 to 30 existing in our demographic, this is almost 60% in many ways of the population coming of age of marriage. We are expecting at least for the next 4, 5 years, there's going to be a good demand for the formal sector. And we are seeing that happen in India, particularly with really experiencing more demand than we are able to supply. Does that I hope answer your question. So, I suppose the demand is sustainable.

Yash Agarwal: Also, so now on the yarn side, so I believe cotton players are facing a challenging time with their spreads being crushed due to higher cotton prices. Now, cotton yarn rates have gone bizarre, last I heard it's around Rs. 440, Rs. 445 per kg. Now, basically is there a shift that you're witnessing in synthetic yarn? And how are the spreads and demand on the on the yarn side for you for the commoditized part of the business?

Ravi Toshniwal: So, that's a very good question because the cotton yarn prices being so high, there was a shift from cotton to polyester cotton, and now there is a shift from polyester cotton to poly viscose. Even in shirting now, we are seeing a demand for poly viscose, which is coming in the 40s and 50s yarn counts. And we are seeing demand across many, many different segments where they're trying to replace polyester cotton with poly viscose. So, this has definitely caused our yarn margin to improve. And yarn business remains oversold.

Yash Agarwal: And the spreads are better than what they were in the last few quarters or they're at the same level?

Ravi Toshniwal: The spreads are definitely better.

Yash Agarwal: Also on the fabric and garment side, you've done a good job on a sequential basis to improve margin, despite very challenging raw material cost situation. So, has this been completely driven by price hikes? Or is there some internal efficiency changes that you have initiated here? And sir, the major question is, is price hikes going to be easy for you to take in the value added segment?

Ravi Toshniwal: So, I think this is driven more by capacity utilization right now, that we have had capacity utilization about 70% in the fabric business. And now we are seeing it increasing, because there are more orders coming in. Anything that we do to increase our capacity utilization in garments and in fabric will add to our EBITDA margin. With the transfer price internally that we have to our division accounts for the full profitability of yarn at market price. And then we have to add something in the fabric or add something in the garment to be able to get a sale, and otherwise we wouldn't take the order. So, this is something where the more we sell of garments, and the more we sell a fabric automatically, the overall EBITDA margin will go up. And we don't see a challenge in this only because a lot of the other customers, suppliers are not able to provide the volume customers are asking. There is a shortage of supply. It is a supply side constraint right now to provide the kind of product we are doing.

Yash Agarwal: So, what is the target EBITDA margin for FY23? Should it be in low double digit about 10% to 12%? Is that a fair sort of target or a number that we should work with?

Ravi Toshniwal: So, I would be a little bit more optimistic. And I would say that it should be between 12.5% to like maybe 13%, 12.5% to 13% is what we are internally targeting. Internally, maybe even higher, but let's say 12.5% to 13% is what we think it should be.

Moderator: The next question is from the line Prerna Jhunjhunwala from Elara Capital. Please go ahead.

Prerna Jhunjhunwala: Sir, I had a few questions on the garment business. You mentioned that you are going to increase the capacity of the garment business. So, how much are you planning on the next 2 to 3 years is what I was trying to understand. And at current 88% utilization, whether this garment utilization can go to 100% and we can reach Rs. 250 crores, Rs. 270 crores of top line on a run rate basis in existing business or it can be higher because of increase in the realizations? So, one on existing and one on the upcoming CapEx.

Ravi Toshniwal: So, definitely CapEx can go up to 90%, 95% even in the garment. We're trying to get larger run orders. At the same time, right now, the labor shortage was the main challenge in increasing the capacity utilization, not the order book. And the labor has been trained, we lost a lot of the labor and they had to be recruited, a lot of people had to be recruited back and trained in the labor force to be able to get the capacity utilization up which is happening now. So, what we're seeing in terms of the garment business is that there is definitely a potential to ramp up capacity. We've ordered the machines with training the new labor, and we've got the training department working overtime to ramp it up. This is happening already. And we have got maybe Rs. 200 crores of turnover in the garment business last year. But next year's target is to get around Rs. 300 crores to Rs. 350 crores of garment turnover. We're talking about garment turnover increasing by more than 50% to 70% of what we were talking about.

Prerna Jhunjhunwala: And this Rs. 300 crores to Rs. 350 crores will be from existing capacity or there'll be some addition in the capacity?

Ravi Toshniwal: From existing capacity, because not only are we going to look at the capacity utilization, we are accepting orders with better value addition. So, it's a combination of the two that will lead to the increased turnover. We have the privilege now of saying no to certain types of orders. And earlier, we were looking more at filling up the capacity. Now we're looking at what can we do to improve our overall value added per employee.

Prerna Jhunjhunwala: Sir, so when you've given your FY25-FY26 targets in your presentation, for that 25% revenue from garmenting, how much capacity would you have to add and what would be the CapEx for it?

Ravi Toshniwal: So, it will keep happening organically. Garment capacity is not going to ramp up in a spurt. We are never going to stop expanding it seems in garment. We see the shift away from China to wanting to buy garments from India. And for garments to be the bottleneck for a long time to come going to be a continuous feature. Today, if you look at even in our fabric division, we would deliver more fabric and we would not have as much stock as we hold if garment capacity in the world had not shrunk. But unfortunately, during the pandemic, the garment capacity in the world has shrunk, people ordered fabric with us and are lifting it slower only because there's a bottleneck in garment capacity. So, we are seeing that this is going to be a continuous investment from our side. As organically and as fast as we can ramp up garment capacity will be a benefit to us. It does not take much CapEx, it takes a lot of work.

Prerna Jhunjhunwala: So, then your FY25 target of 25% garment revenue is quite conservative, because Rs. 1600 crore is what you are targeting and 25% means Rs. 400 crore of top line, whereas Rs. 350 crore is what you're targeting for FY23.

Ravi Toshniwal: Between Rs. 300 crore to Rs. 350 crore I said. So, I don't know, I mean Rs. 300 crore for sure.

Prerna Jhunjhunwala: And sir, what would be the fabric contribution in that? Could you help us understand something on the client side where you're working which can help us understand where these incremental utilizations would come from in the garment and fabric business.

Ravi Toshniwal: It's mainly the existing clients itself, who are continuing to grow with us and want more of our capacities. There's a few additions which may happen. We are basically exploring brands and developing relationships with brands who are wanting more comfortable smart casuals and comfortable formals. So, formals which stretch and formals with comfort are the kind of clothing we make, and also some knit jackets and knit pants. So, those are areas in products where all of our brands are moving into it. It's the more sort of let's say, less structured suit, and the more smart casual garment and that area and all of the brands who are already with us in that area, continue to want more and more there.

Prerna Jhunjhunwala: Sir, one fundamental question on this China plus One. We've been hearing China Plus One largely for cotton. PV is something where China would be more competitive even today, and there is no ban per se on PV sourcing by China also. So, how is this China Plus One helping us in gaining market share in global trade or within the brand?

Ravi Toshniwal: So, my perception is a little bit different here. The overall shortage of cotton in the world happened during the pandemic because cotton use increased all over the world, whether it was in home furnishing, whether it was for the consumer, when people were there in the pandemic, they became more casual and casual clothing equates with more cotton. And this is why the overall consumption of cotton in the world went up, not just the ban that caused this problem. This is something which happened due to a lifestyle change world over. And in that lifestyle change since the demand in cotton continues to be more and production capacities and acreages available have gone down, yields are not coming to the extent that are supposed to come in cotton. This shortage is going to continue for a while, and the only replacement of it is synthetics. In fact, even from a point of view of environmental sustainability, there will be some limits to which you can have natural fibers. So, we are seeing a trend and a shift towards synthetics. And this is why we feel that this China Plus One strategy is not going to be limited to just cotton, it is overall and it is in the garment capacity overall as well. As Chinese garment capacity shut down and have not revived, the workers haven't come back, they've gone into other jobs. And this is true across the board in textile, it's not going to be specific to a fiber.

Prerna Jhunjhunwala: And this happening globally?

Ravi Toshniwal: It is happening globally.

Prerna Jhunjhunwala: In China, Vietnam everywhere, we know that workers are not coming back.

Ravi Toshniwal: Correct. Like I said, the bottleneck today is garment capacity, if you look at the entire value chain. Retails also have stores empty, because not enough garment are being delivered at the flow rate expected.

Prerna Jhunjhunwala: Correct. And polyester viscose is very close to cotton than polyester cotton, how would that be?

Ravi Toshniwal: Polyester cotton and polyester viscose are very close now. We have all of the technologies now to give you the properties of polyester cotton and polyester viscose, and it's much cheaper.

Prerna Jhunjhunwala: Sir, last question from my side. You have given FY25 targets for your EBITDA. Could you help us understand how the transition would happen between FY23, FY24, and FY25 to that?

Ravi Toshniwal: So, you're talking now about a 3-4 year plan, right?

Prerna Jhunjhunwala: Yes.

Ravi Toshniwal: Roughly we're saying in FY22-23, we should be, I think, in the range of between Rs. 1300 crore to Rs. 1400 crores in turnover, and with an EBITDA of Rs. 160 crore to Rs. 175 crore. And then FY23-24, we will continue to monitor this situation, but FY23-24, we expect to be around Rs. 200 crore in EBITDA and then get to that Rs. 225 crore. so it will be gradual, getting from Rs. 160 crore, Rs. 200 crore, Rs. 225 crore like that.

Prerna Jhunjhunwala: Any challenges that you see that this might become difficult, maybe increased power cost or nonavailability of labor, this can get challenged or everything remains well under control?

Ravi Toshniwal: Well, you may have a world war and you may have a nuclear problem.

Prerna Jhunjhunwala: No, not special situation. I'm not talking about that.

Ravi Toshniwal: Special situations are always today happening. So, then it won't really matter once there's a nuclear war. But other than that, there are various challenges in terms of the fact that India, if it gains access to more markets because of the FTAs that we are talking about, it should only help. If we don't get those FTAs, there will be some challenges to growth. If we are able to get, let's say, the overall supply chain logistics in India improving and our cost of logistics reducing, this will help. This still remains a challenge for India. And we're seeing by and large that there will be a growth in synthetics. And we are more bullish about synthetics not just because we are in it, but we see now that the future has got to be more synthetics in India. We will really be investing in using more synthetics for our knitting, for fabric and making specialty spun synthetic yarns that go into new applications. I don't see that there should be really major concerns because we're not that big a player, and we don't intend on growing so much. Our overall investment that we're talking about for the next 2 years is about Rs. 250 crores within spinning fabric with knitting and weaving garment and some infrastructure costs and solar, etc, plus some maybe investments that we are thinking of in direct to consumer brands. So, within all of these, we'll be growing Rs. 250 crores over the next 2 years. So, not a huge thing.

Prerna Jhunjhunwala: This was not the last question. Your CapEx plan is intriguing to ask me that. How will the split of CapEx be? And what is direct to consumer brand investment? These are the last two questions.

Ravi Toshniwal: So, our split we haven't completely decided yet. But let's say we're going to do about between Rs. 140 crore to Rs. 150 crores specialty spinning and some modernization is required there, plus the solar park. So, that's going to take about between this and there's about maybe Rs. 15 crore to Rs. 20 crores in garments and about Rs. 100 crores or so odd between weaving, knitting and finishing. Now, as far as brands are concerned, we are allocating maybe a budget of Rs. 30 crores, Rs. 40 crores to acquire brands whenever we find the right one. We haven't yet. We're just doing the process of due diligence.

Moderator: The next question is from the line of Sudhir Bheda from Right Time Consultancy Private Limited. Please go ahead.

Sudhir Bheda: Since you have given a lot of optimism on the synthetic textile side and garment side because of various reasons that you have mentioned. But if you look at your guidance of 2025 of 1600cr turnover from Rs. 1,200 crore to Rs. 1,600 crore, it is just less than 12% or almost 12% CAGR. So, why you are so pessimistic about next 3 years guidance when the scenario of the synthetic textile as well as garments are looking much brighter than what it was in the last 10 to 15 years.

Ravi Toshniwal: So, we've been conservative at the moment. And if we revise our conservatism to be more, let's say, optimistic, we will do something. The challenge we feel is that the segment we are in has always been one of more formal clothing and smart casual, and we are seeing a tendency for the word to turn more, let's say casual, and go down to dress down. And we've never been strong at that. So, we don't want to invest too much in the dress up clothing segment, when we are seeing some possibilities that this trend may not endure as much. So, we have to change our DNA to be more in the mix and athleisure. And where that is more, let's say, oriented towards an active lifestyle that people are now trying to spend more on. And this is something which will take a little while for us to learn and then we can do a big investment on it. And so, we are making little pilots to check out where is the new space where we really want to grow because we don't want to make a huge jump just based on the macro sentiment. We also have to identify which is that particular area in which we want to make that big leap.

Sudhir Bheda: And on fabric side, what kind of fabric do you make? It is a PV or it's a cotton polyester mix?

Ravi Toshniwal: We're making mainly poly viscose, poly wool and all wool. Mainly we have been making fabrics which are for the tailored industry. So, it is for suits and for pants.

Sudhir Bheda: And spinning side also the same combination.

Ravi Toshniwal: Spinning side has also been there. You are right. That's why we suffered a lot also initially, because in the pandemic, the wholesale business came to a standstill almost.

Sudhir Bheda: And all was wearing casual and shorts.

Ravi Toshniwal: Correct. That's reason we are not really jumping forward, although we are now seeing a revival of demand in the whole formal suiting sector because like I told you the demographic of the weddings in India, and missing out of all of the formal occasions that people had over a while, so now there's some revenge buying.

Sudhir Bheda: And CapEx plan, are you investing from your internal accrual or you will be taking more debts next couple of years?

Ravi Toshniwal: So, we will be definitely using our internal accruals, but we will take some more debt, I think. This is where we are not averse to it. Given if the debt increases a little it'll increase. That's not a problem. We have a very comfortable debt equity ratio, like I said of 0.7. We have the ability to borrow. So, there is no problems.

Sudhir Bheda: So, what could be the debt in this year?

Ravi Toshniwal: Like I said, we don't want to spend more than Rs. 250 crores in the next 2 years. And we'll probably get about Rs. 100 crore, Rs. 125 crore internally. So, maybe there'll be another Rs. 125 crores or so.

Sudhir Bheda: Additional debt, right?

Ravi Toshniwal: Yes, additional.

Moderator: Thank you. The next question is from the line of Manish Sahni from Hansraj Virendra Capital. Please go ahead.

Manish Sahni: Sir, my question is related to industry perspective, that how things are emerging for Indian textile industry, as government has come with PLI scheme for MMS. You were selling textile imported from China and recent FTAs with UK and in talks with Europe for the same. So, how these things are going to turn around things for Indian textile industry? And what are the opportunities for your company in this revolution?

Ravi Toshniwal: So, you know, on a macro level, like we all have all spoken, there's a lot of optimism. And the big challenge for India is to make sure that we can deliver garments out of India to the volume required or the finished product from India to the volume required by the rest of the world. If we are not able to meet these expectations and ramp up the demand, like they say in a supply chain, the weakest link is as strong as you are. And our weakest link at this moment is the garment industry. If this grows, and now there is a lot of expansion happening within India, we will have an opportunity to be able to capture more of the global share. And if we are not able to ramp this up, then we will not be able to make use of this opportunity and some other country will take it.

Manish Sahni: My second question is on margin front. Like before 7 to 8 years' timeframe which I'm talking about our margins used to be around 15% to 16%, which are now at 10%. So, what are the things which cause this decline? And do we have any target with respect to margins which we would like to achieve? Or are these margins sustainable?

Ravi Toshniwal: So, like I said before, that we are targeting next year to be around 12.5% to 13% EBITDA margin, and we are getting back slowly. And hopefully in a few years, we will try to come back to that 15% with an increased turnover. And that is exactly the way we want to go. In a way, we are in a niche segment. And which doesn't have particularly a very large market in terms of the fact that we are in tailored clothing and in more formal sector. But this part, we used to dominate much more few years ago when we had our joint venture partner with Caramel, and then they went away to China. And large portion of this business actually moved away to China and it seems to be now coming back. So, we think that we will get back to those margins as well.

Moderator: The next question is from the line of Sagar Parekh from Deep Financial Consultants. Please go ahead.

Sagar Parekh: Actually, I'm kind of new to the company, so pardon me for my ignorance. I just wanted to check on the yarn side. So, you all make only synthetic yarn, is it? Or you all also are into cotton yarn?

Ravi Toshniwal: No, we don't make cotton yarn at all.

Sagar Parekh: So, my question was actually because the cotton yarn spreads right now in the last 2, 3 months have kind of decreased, right, from Rs. 120 approximately to about Rs. 90, Rs. 95. So, will there be like a similar kind of effect on the synthetic yarn as well going forward? Because I think what the players are talking about on the cotton side is that there is some demand destruction on the European side, from European customers. So, because of that now, it's becoming increasingly difficult for them to increase the yarn prices, so the spreads have started coming down. So, just wanted to get your sense on how should we look at the synthetic yarn side of the business? Since your commentary is saying that synthetic yarns breads are very, very strong right now.

Ravi Toshniwal: Sagar, sorry, I got disconnected for some reason. So, I lost track of your whole question. I didn't hear all of it.

Sagar Parekh: My question was, sir, that the cotton spinners are seeing a decline in their spreads in the last maybe a couple of months. So, there spreads are about Rs. 120, Rs. 125 per kg which has come down to Rs. 90, Rs. 95. Their commentary states that there is some demand destruction from the European customers, because maybe of the war or just general slowdown. So, I wanted to get your sense on thoughts on the synthetic yarn spreads. If cotton yarn spread starts coming down, how would it impact the synthetic yarn spreads or there is no correlation between the two?

Ravi Toshniwal: No, there is a correlation. We are seeing a demand shift away because of cotton yarn spreads going down means cotton fiber prices have increased. And this continues to be a trend, there is a shortage of fiber and cotton. And the consumption surpasses the demand. And this means that there will be a shift towards synthetics. So, we see this the only solution for clothing.

Sagar Parekh: But that would mean synthetic fiber prices would keep going up?

Ravi Toshniwal: No, that's not happening because the supply position on synthetics is not constrained like cotton supply. The supply percentage because it being a natural crop, and acreage of cotton area having gone down, also due to many other reasons, that is a constrained factor. Whereas we don't have that constraint, a lot of the capacity of polyester fiber and viscose fiber available in the world is still there, and not utilized. So, there's a supply demand issue here. The supply side on polyester is fine. The supply side on cotton is not.

Sagar Parekh: But are you seeing any kind of demand destruction on the end product side like garments or something or because your commentary seems to suggest otherwise? But generally, on the Europeans manufacturers or European brands at least, the commentary seems to be coming is that last few months have been little on the slower side?

Ravi Toshniwal: It is. This is true. The fact is that China has vacated part of its business, particularly in worsted fabrics, and many of the tailored clothing businesses and why we are experiencing more demand is because there has been some shutdown of capacities in China. And this is why we have more demand, not that there is overall more consumption. Overall consumption has actually gone down. But the amount that the consumption has gone down, the capacities in China that have gone down are even more.

Sagar Parekh: So, this is for the specific product that you manufacture, the tailored suits that you're talking about.

Ravi Toshniwal: Particularly for at least in the man-mades in many areas, even we are getting demands and people are coming to us for athleisure clothing, or athletic clothing or active wear clothing, and there are many companies in India like just Paragon is there in Delhi or many others who are experiencing huge demand for synthetic clothing in various, various different segments. So, it's not just true for suits, it's true across the board in synthetic.

Moderator: The next question is from the line of Gunjan Kabra from Niveshaay. Please go ahead.

Gunjan Kabra: Sir, there are industrial power cuts going on in various states due to shortage of coal. Are also facing in such power cuts in Gujrat right now which can impact our production?

Ravi Toshniwal: So, we are primarily in Rajasthan for our spinning and weaving and fabric part of the business where we consume most of the power. In Gujarat, we are there for the garment part. So, in the garment industry in Gujarat, we're expressing no concern at all. In Rajasthan, there is a power cut, but we have our own generation. And so this is not impacting us right now. We are fine. So, the power cut is definitely a concern, in terms of the overall cost of power going up. But we have been able to absorb that all already. And we have factored in the fact that the power cost is going to be more and been able to pass it on to the customer.

Gunjan Kabra: Because we have our own power plants, so that is not really impacting us.

Ravi Toshniwal: Absolutely. The power cut is not impacting us.

Gunjan Kabra: So, for you, there is no issues sourcing coal?

Ravi Toshniwal: So, we have we have sufficient supply of coal both between domestic and international. There's no concern right now.

Moderator: The next question is from the line of Akhil Hazari from Robocapital. Please go ahead.

Akhil Hazari: Sir, I just wanted clarification on the CapEx that you had mentioned, Rs. 140 crore, Rs. 150 crore in spinning and other amounts in Rs. 100 crore in weaving. Sir, like around total CapEx would be Rs. 260 crores. Is this in for FY23 or over the next 2 years.

Ravi Toshniwal: Over the next 2 years. It's for both '23 and '24. Because machineries are only not available. For deliveries on machines are only 2 years. The implementation of any new CapEx will take a minimum period of 2 years.

Akhil Hazari: And the debt that you've mentioned again, so for Rs. 260 crore, around Rs. 125 crores in debt for the next 2 years, right?

Ravi Toshniwal: Increase. We have increase of generation of maybe about Rs. 125 crore and we may have an increase in Rs. 125 crore. So, that's what we are saying.

Moderator: The next question is from the line of Anand Jain, an individual investor. Please go ahead.

Anand Jain: My first question is last year, there have been significant increases in the prices of pretty much all commodities, including polyester, viscose, and everything. So, what is the volume versus price increase that we have seen in last year?

Ravi Toshniwal: When you're looking at cotton, we've seen that the prices in cotton have almost gone double of what they were in the last 2 years or so. Whereas in synthetics, the increase is more to the tune of 20% to 25% in terms of yarn prices, I'm talking, right? So, the proportionate increase in man-mades as compared to cotton is much lower. And this is why we are seeing the switch happening globally. In the manmade there has been really not that much impact because the price increases relative to cotton is lower. Therefore, the demand has not gone down.

Anand Jain: A company in the sense that our sales increase that has happened, how much of that has happened because of the price increase versus the volume increase?

Ravi Toshniwal: So, you're right, part of the turnover increase is due to the price increase. You're absolutely right there.

Anand Jain: And can we assume that to be around 15%-20% or so?

Ravi Toshniwal: I would say we should get a 15% inflation anyway automatically. So, turnover has to increase 15% if this inflation continues into the next year. But compared to last year, we would say we have achieved a Rs. 1200 crore turnover here. In this year, a portion of it is due to inflation. No doubt.

Anand Jain: So, the reason I'm asking this question is that, if I were to go back to March 19, which was a peak in terms of sales, and the prices were far more stable at that point of time. So, in order to achieve a similar volume to March 2019, we would be sitting on roughly Rs. 1,600 crore, Rs. 1,700 crores of sales. Is that a fair assessment?

Ravi Toshniwal: I don't know, I'd have to do the math, depending on the product mix we were selling then and the product mix we expect to be selling now. The product mix has actually changed and become more value-added now. We have shifted away from many other products.

Anand Jain: So, that would mean, if I were to just add the inflation and a positive change in the product mix, I'm not saying there could be a like-to-like comparison, but more like, at a broader level that 1300 should be like 1700 today, something 1350 should be like 1700 today.

Ravi Toshniwal: What you're saying is that if there is 15% every year annual inflation 1,300 will become 1700 over 2 years. That's what you're saying, right?

Anand Jain: I'm saying that 20% inflation has already happened, right?

Ravi Toshniwal: 20% has happened over the last 2 years pre-pandemic to now. And this has happened at the yarn level, but it hasn't translated completely into the fabric or the garment level. And then, of course, there's been changes in product mix. So, a lot of the products that we were making before we moved into more value-added products. So, even though we're not using the full capacities, we're still getting a better value addition in some. With the raw material increase in price, we are forced to move into more value-added product source. The margin in more expensive products is better now as compared to the margin in more commodity product, because the raw material increases and inflation costs are hitting more at the basic commodity level as a percentage.

Anand Jain: Are there any inventory gains that we could see in the current number?

Ravi Toshniwal: Not really.

Anand Jain: I don't know how, because we carry a decent amount of inventory. And because of the inflation, does the current numbers have some component of the inventory price gain?

Ravi Toshniwal: I would say that our inventory has increased, in fact. And I would say that the inventory increase carry some gain, which maybe we'll see over a period of time.

Anand Jain: The next question that I have is that in the last 2 quarters, we have seen unusually high power costs. Some of that, as I remember from earlier con calls is that because the coal prices have gone up and since we have our own captive coal plant, it's because of that. Can we have some estimate of how the power costs could look like when things normalize compared to this quarter and the last quarter?

Ravi Toshniwal: So, when we look at our power cost, we're only looking at it in terms of a competitive cost versus others, right? So, when we are generating our own power, but others are buying it from the grid and they are cheaper, we have a competitive disadvantage. Right now, since everybody is using their own power and those coal plants which were lying idle, also now has been switched on since there's power cut, that differential has actually gone down. And the market is being able to absorb some of that cost because the market has demand right now, right? So, we do think that some coal mix cost reoptimization has been done by us in terms of the overall domestic and international and the quality of coal that we're procuring to limit the cost increase. But at the same time, the disadvantage we have in not being able to take grid power has now minimized. So, we don't see that even though we've accounted for the fact that we're going to have to pay a higher power cost, and we're trying to pass it on. We're not now seeing that this will be as much of a disadvantage as we had thought. So, I think it's minimized the impact.

Anand Jain: Last question from my end. What I see is that there is a sharp increase year-on-year in the employee benefit expenses. They have moved from Rs. 150 crores last year to Rs. 220 crore. Even in Q4 from Rs. 49 crore, Rs. 50 crore to a Rs. 63 crore level. Some of it of course, I can see that we are running at a better utilization, but are there any other factors that you see directly?

Ravi Toshniwal: I think the main thing is the garment increase in utilization. As our garment utilization increases, our total employee costs will keep going up in higher proportion because garment uses a lot more labor.

Anand Jain: So, as we ramp up our government business, the labor cost will keep increasing.

Ravi Toshniwal: Correct. And it doesn't matter because like really speaking the labor cost increasing in the garment we gave you separately versus the other parts. We haven't increased the labor cost in spinning or in weaving per unit of production. But in the garment as soon as you do so, a large percentage of your total turnover in garment is your labor cost.

Anand Jain: Last question is on other expenses. They have also moved up from Rs. 109 crore even to Rs. 163 crore. Any like one time components in other expenses or are these like routine operational expenses most of it, the increased part?

Ravi Toshniwal: I'll have to look into that to check what you're saying. But power definitely.

Anand Jain: Power, we have given separately.

Ravi Toshniwal: So, the other cost, I have to check those numbers. One second. Let me just to see. Do you have anything, Ansh? Just a second. I think that in proportion to the production value, the costs have also gone up. But I don't think it's disproportionate to the increase in production values.

Anand Jain: That's correct. I just wanted to know is there any one-offs here?

Ravi Toshniwal: There is really not much in the sense that like we're saying from April 21 of March 22, the costs to production value have actually become 13.32% as compared to April 20 to 21st March, it was 15.25%. So, actually, cost has gone down as a percentage. So, they've gone down by almost 2%.

Sagar Parekh: One more question, if I may just squeeze in. If I were to ask you, I went to a website and then I see a lot of clients which are the best in the world, like the GAP and Levi's and M&S of the world. So, how you'll make in general with each client or rather let me put just put it in a different way, what is the concentration of, let's say, top 5, top 10 clients in our revenue? How are the orders? This year, the orders placed on a year wise contract basis or how does that part play out? If you can just share some information on that?

Ravi Toshniwal: So, that's rather a broad question, considering the fact that we're in 3 businesses, the yarn business, fabric business and garment business, and for each one the answer is different. So, I mean, I can't give you overall that scenario, but I can say that for yarn business it's much more broader. And we have a broad base of customers which are corporates in India and corporates abroad and spread out. In the fabric business, we had more concentration in the US. It's fallen a little, it's moved a little to Japan and Korea and Australia. So, there's some churn happening. But I can't really be more specific right now to that question.

Sagar Parekh: I clearly get it. Maybe someday when we talk on a one-to-one level, I think that question could be answered in a better way.

Moderator: Ladies and gentlemen, that was the last question for today. I now hand the conference over to Mr. Ravi Toshniwal for closing comments.

Ravi Toshniwal: I just want to thank everybody for their interest in our company and look forward to keep meeting you regularly on the earnings calls, as well as any other occasions when we have the opportunity to be able to interact with you all. Look forward to the new financial year. And we hope that we can give you a performance which is better than what we've done in this year. Thank you very much, everyone, and good afternoon.

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.