“Banswara Syntex Limited Q4 FY2017 Earnings Conference Call”

May 29, 2017

Moderator: Ladies and gentlemen, good day and welcome to the Banswara Syntex Limited Q4 FY2017 Earnings Conference Call. This conference call may contain forward-looking statements about the Company, which are based on the beliefs, opinions and expectations of the Company as on 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 an operator by pressing "*" and "0" on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ravi Toshniwal from Banswara Syntex Limited. Thank you and over to you Sir!

Ravi Toshniwal: Thank you. Good morning ladies and gentlemen. Very warm welcome to the Q4 FY2017 earnings call for Banswara Syntex Limited. Along with me in this call I have Mr. J. K. Jain, CFO and SGA, our Investor Relations Advisors.

The last year's performance for FY2017 has not been good. Q4 has been unexpectedly worse than before. FY2017 was a challenging year overall, where we were faced with various unforeseen obstacles.

The performance for H1FY2017 started with an improvement to our profitability over the H1 FY2016; however, two things changed and a lot of problems happened. The demonetisation initiative led to an onslaught of most of the complications. We complied fully with the cashless initiative of the government, which did not allow us to disburse the routine wage payments in cash, as well as took away the longstanding practice to pay overtime wages to workers in cash at the end of their shifts. This caused some distress and agitation among our work force because earlier if they had to do overtime and then stand in line to get back the cash which gave them some liquidity; we had a lot of challenges in getting people to come to do overtime.

Over the last few months, almost for six months now there has been a slowdown as a consequence of this challenge. We have been working on improving the culture; to get used to the idea of not taking cash, which is now beginning to kick in, but we had these challenges to live with.

The labour shortage also resulted in delayed production times and all the one hand we had a very good order book, but it led to challenges of not being able to fulfill the order book and delayed order delivery leading to substantial costs for transportation to many of our critical customers by air and that increased many of our expenses. So apart from this our Power & Fuel Cost also rose in Q4 of FY2017, so an increase in our raw material prices and the above situation all resulted in our results not being as favorable for the second half of the year.

We hope that the GST regime should be favorable for our business. We will have more clarity once the rates are declared after the June 3, 2017. We have had a good order book for the current quarter but the dispatches have been weak since customers are waiting for more clarity on the GST rates. Hence, we may see the revenue booking is happening with delay. At this juncture, it is pertinent to understand there our vision and strategy, however, remain intact. We continue to see a transformation towards the more value added composite mill structure.

This will enable us to invest our efforts into expanding our portfolio of value added offerings to the customers. Our garment and fabric business continued to grow. This is evident in our evolving product mix where we can see that the contribution from garments and fabrics has risen steadily.

In Q4, the garment segment contributed 21% to our revenues while in FY2017 it was 19%. We have committed to the vision that India's garment and fabric industry has the potential to become a significant hub for supplies to global fast fashion and also within India for the fast fashion industry.

We have focused on shortening our lead times and integrating ourselves into this fast fashion supply chain. We are leveraging on our manufacturing and design capabilities to create the right fit for this.

Lastly, I would like to reiterate the importance of the strategic partnerships that we are doing both in the east and in the west. In the east, we have had partnership with Takisada, a Japanese trading company that is leading to increased value-added sales and access to 1500 customers within Japan South Korea and Far East markets and recently we have signed another marketing agreement with a European company who I cannot name at the moment, but this will lead to increased business in both Europe and the US with strategic design input and product support from the European partner.

Our partnerships are essential for expanding our reach into the global markets, they are also source of valuable insight on the ever-changing fashion trends and leadership that Europe gives for fashion and this will continue to add value to our business in the forthcoming periods.

I am also pleased to inform you, not as pleased as I would have been to inform for a bigger dividend, but we are restricting the dividend to only Re.1 per share. Now I would like to hand over the line to Mr. J.K. Jain to update you on the financial figures. Thank you.

J.K. Jain: Thanks Mr. Toshniwal. Good morning everyone. The Q4 audited working results for the FY2016-2017 is already with you. I will just take you through the financial performance briefly. For the Q4 FY2017, revenue for the Q4 2017 stood at Rs.318 Crores against Rs.348 Crores in FY2016. Segmentally yarn contributed 35%, fabric contributed 41% and garments 21%.

EBITDA Q4 FY2017 stood at Rs.27 Crores, for the full year 2017 revenue stood at Rs.1244 Crores as against Rs.1265 Crores in FY2016, segmentally yarn contributed 39%, fabric 40% and garment 19%. This on FY2016 to FY2017, the contribution of fabric and garment has increased. EBITDA for FY2017 dropped by 17.9% year-on-year basis to Rs.132 Crores because of increasing wage bill and other expenses.

EBITDA margin was 10.6% for the year FY2017. Finance expenses were lower by 10% to Rs.63 Crores. Profit after tax stood at Rs.17 Crores, PAT margin stood at 1.3%.

With this, we are not just anticipating major capex during the next financial year, the debt repayment will continue and the company is moving toward the lower and lower debt regime. I now open the call for questions, please.

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question and answer session. We will take the first question from the line of Viraj Mehta from Equirus PMS. Please go ahead.

Viraj Mehta: Sir, few questions. One Sir, our topline for this quarter also declined by around 10% whereas I was assuming that there would be some price hike because of our RM price increasing, so how was the volume growth this quarter and how was the traction you are seeing post April, so if you can just guide us on that?

Ravi Toshniwal: Viraj, thank you for your question. The thing is that in Q4, we were not able to pass on many of the increases that happened in the raw material to the customer and this was also a challenge because of the demonetisation effect, the domestic market was really underperforming and it was not possible at that moment to ask customers to absorb the cost increases, also the kind of business we do in the fast fashion business with the commitment to not change the price for six months. It is important to understand that we could not pass it on; however, going forward the good news is that with the decrease in the oil prices of raw materials have now come down. So going forward, we will maintain the prices or increase them marginally while the raw materials go down, so we do expect an improvement in the margin going forward and we do expect also the topline to grow; however, the top-line in Q1 remains subdued. This is primarily because of the GST. This is another external factor both the demonetisation and GST are unfortunately things where one has to wait before things get better.

Viraj Mehta: In terms of your two new strategic initiatives. One with the Japanese Company, one with a European company, I was under the impression there will be more for women's fashion is that correct?

Ravi Toshniwal: The European one is more for women's fashion, the Japanese initiative with Takisada is for all markets and Takisada is a 150 year old trading company which has about customer basket in Japan alone of around 1500 customers; other than what they have in Korea and some other Far East countries, so that is for all - both women and men.

Viraj Mehta: But even in that scenario, can you quantify how much revenue do you expect from these not this year but probably next?

Ravi Toshniwal: I can say that we had done revenue of around Rs.24 Crores last year in Japan and this year we are hoping to do closer to 40.

Viraj Mehta: That is FY2018. You are hoping to do 40.

Ravi Toshniwal: Yes, so the substantial increase in the revenue from Japan that we are expecting. In Europe, I do not have idea of the figures, but it is expected to double again. So, we are looking at a doubling of revenues in both the strategic partnerships from whatever it was last year; that is the minimum we expect.

Viraj Mehta: If look at on a constant topline or a slightly declining topline and if I look at Q4 to Q4, our topline has dropped by 10%, but our inventories have gone up 10% from Rs.290 Crores to Rs.329 Crores?

Ravi Toshniwal: That is correct and mainly the inventory increase was in raw material and we had some wool on stock as well as we have some increased viscose and polyester on stock, viscose because of the eminent shutdown due to the rains in Nagda we had to lift some of the goods earlier. So this was really an increase in raw materials not in finished goods. Neither the fabric inventory, nor our garment inventory increased, but raw material inventory particularly in wool increased which was kind of strategic in a way.

J.K. Jain: Wool prices basically, Viraj I will add one more thing. When we imported the wool, the prices were already low and since then we have seen price increase in the wool, so when this wool would be consumed the company will gain ultimately.

Viraj Mehta: Sure and debt payoff this year was very low compared to last two years, last two years we have been doing Rs.50 Crores, Rs.60 Crores on an average with depreciation only Rs.60 Crores we paid up only Rs.17 Crores this year?

J.K. Jain: I understood, the point is this year in fact we have paid Rs.66 Crores of the term loan, this was the highest in the last three, four years, but the point two things happened, when you are looking at the balance sheet and the long-term funds, so the Rs.32 Crores was the term loan disbursement also for the capex done by the company during the year. Second about Rs.15 Crores, Rs.16 Crores was the loan taken by the company from the banks for meeting our working capital requirement that was done to improve the current ratio and we have accepted certain fixed deposits also, so fixed deposits came in as a long-term fund, the disbursement of the WCTL and Rs.32 Crores term loan disbursement, all three are added to the term loan and Rs.66 Crores, the repayment was deducted. So in net when you are looking at the data of the last year versus this year, you are just not funding a substantial repayment, but efforts of the company are in line with the overall strategy of improving the current ratio and debt repayment.

Viraj Mehta: The finance cost that we are paying this year we paid roughly Rs.63 odd Crores of finance cost on a full debt of Rs.530 Crores, Rs.540 Crores. This is on the higher side when I compare it with almost all the textile manufacturers. If we actually take a TUF loan now then the interest cost is actually much higher and this is in spite of us getting slightly better rating last year. So should this not go down substantially over next two years thus the rate of interest at least that we are paying, because in a lot of listed companies or unlisted as well, we are seeing a lot of rate benefit has happened post September, October especially post December as in rates have gone down by at least 150 BPS for a lot of companies, but that improvement we are not seeing it all in our company Sir.

J.K. Jain: You have a right question.

Ravi Toshniwal: J.K., you can elaborate on this, I just want to make one comment. I think Viraj is right in saying that there is optimism towards the interest rates coming down and in fact our interest rates also came down that in a way the EBITDA has dropped more than our net profitability because of the fact that there was some interest advantage that we got further I mean the net profitability has dropped less than our EBITDA margin, because we got improvement in our total amount of interest compared to last year that we paid. So you can explain more, but going forward we still think that these benefits of the interest as well as the reduced overall total amount of funds that we will need and what repayments we have made will lead to less finance cost.

J.K. Jain: Right, adding to the comment that Mr. Toshniwal has made I am going more specific towards the finance cost for our working capital and term loan, so as I told you that the repayment of the loan which is at the faster pace and we are borrowing certain amount of loan, which is for financing he working capital. First thing I would clarify that the loans which are being repaid are TUF loans where company is getting the 5% interest rebate now,but, in the current TUF there is no such thing which is called interest rebate. Company gets only the capital subsidy, so it is for sure that all the new loans that company will take for financing the fixed assets will just not have the advantage of interest repaid under TUF. Second thing as he told, the rate of interest is come down for almost every listed company in the second half, this is true for us also, but two incidents where the rate of interest for the company has come down. One is the internal rating of the company by the lead bank has improved and that has reduced the rate of interest by about 1% and that has started post October and second thing is The Reserve Bank of India and all other banks has reduced the MCLR that was effective from January 1st, so that has further reduced the rate of interest by about 0.8%. Both these things taken into account and I am sure that overall cost of funds will go down. The only thing which has gone negative is the fresh term loans are coming at a rate which does not have the interest rebate, otherwise for sure the rate of interest is going down for us also and the overall interest in the next year will definitely be less than this.

Ravi Toshniwal: But since we really have no major capex plan, there is no big increase that is expected in the term loans, so that is not a factor as to what will be the future cost of the term loans, because we are not planning to borrow and we have no need for capex to the extent we have been talking about for the next two, three years that remains a part of the story, that no capex which is significant is planned.

Viraj Mehta: Okay and this is 8.5% EBITDA margin that we did this quarter, if I look at past quarters, this is one of the worst EBITDA margin we have done. In the past, we have been guiding the 13%, 14% is doable and in the long-term we can also do 15%, 16%. For FY2018, what is the doable margin?

Ravi Toshniwal: We need to come back given that we had this setback and we were not able to pass on the costs; in fact we went to 59% of our turnover going to fabric and garment from 56 overall, so we did increase the value added as we had said we would and the next years plan is to further increase it to about 65%, so we are thinking of going from 59% to about 65% of our turnover being in fabric and garment and that two with more value added customers, so we definitely hope that we will be able to get to that point. The overall cost structure that we have also includes the yarn business and there is a significant cost in the yarn business to not utilizing the capacity and having worker shortage that cost we were not able to pass on and due to the situation in the market, the raw material price increase for six months we were not able to pass on. Now we expect that this should be okay, so barring the first quarter if I look at the overall year, we think we should be back to the 12% plus level of margin for the next financial year.

Viraj Mehta: Thanks a lot and best of luck.

Moderator: Thank you. We will take the next question from the line of Abhishek Shah from Valcore Capital. Please go ahead.

Abhishek Shah: I just had a few questions. First one is, could you give me margin split how much is, what margin do we do in yarn, fabric and garments in each other?

Ravi Toshniwal: We do not really know. We do not have that margin split with us in terms of have been asking J.K., but given the way we are doing our overall merged accounting, at this point, we do not know what the split in margins is. We do know from our cost sheets and we do know from the fact that we have more margins in the fabric and garment business as compared to the yarn business, but we do not actually quantifiably have a number, J.K. if you can provide some information then please advice?

J.K. Jain: Right now, we just do not have the data that is why we are just reporting; but the segment wise reporting as required into the Accounting Standard 17 is also not being provided, because we are saying that the company so integrated that the separate data for the yarn, fabric and garment cannot be worked out, but going forward we are trying to work out a strategy, we are also in the process of implementation of SAP and other related software, so that going forward we would like to get this data, but right now it is not available.

Ravi Toshniwal: What we are increasingly saying is that the transformation of the company is taking us towards the more vertical operation and we are disappointed about the fact that overall in the year our EBITDA margin dropped from close to 12% to we came down to I think how much EBITDA margin did we come down by J.K. in this financial year? The EBITDA including other income reduced from overall Rs.171 Crores went down to about Rs.144 Crores, so we lost around Rs.27 Crores of EBITDA in this financial year versus the last financial year and really if you look at it, we explained it because if you look at the balance sheet you will see there is an increase in about Rs.23 Crores in the wage bill alone, employee benefits and expenses and loan have increased by Rs.23 Crores. Some of it is due to the garment business increase, but most of it is due to the fact that we have had less productivity from the workers given that there were more overtime and given that there were a lot of absenteeism and all of that is really happened in the yarn business and really we have not been able to recover that cost as a whole and that cost has eroded the increased value addition that we should have got from the fabric and garment business, so that is going to come back in Q2, Q3 even the booking that we are seeing now Q2 bookings have almost started for us, look to be good. The response we have remains the same. Nothing has changed in our outlook towards the fact that we have still targeted the best customers and we continue to make the partnerships to try and get better margin; however, if we have faced this headwind of the labour situation and all the increased cost of raw material that we could not pass on in the last quarter; we expect to go forward and do so in the next two quarters and I am sure there will be a turnaround, we will be coming back in that way.

Abhishek Shah: Got it, Sir on the cost front as you mentioned employee cost and may be other expenses that we have borne because of demonetisation and may be wool prices rising, would you be able to quantify, I mean how much of that would you sort of classify as a one time thing which may not go ahead?

Ravi Toshniwal: In fact we had it gone through that exercise and there is a cost of freight which is the one time cost which is additional, about Rs.4 Crores that has been incurred, Rs.2 Crores is repairs and maintenance that we have done in certain offices and buildings within Mumbai and other expansions we did in our office space.

J.K. Jain: For amalgamation Rs.2 Crores.

Ravi Toshniwal: Then there was some loss on sale of fixed assets and merger costs when we merged the caravan entity, these are around Rs.3 Crores, so we had about 3+2+4, 5 and for Rs.9 Crores were like we could say a onetime cost in this particular year and apart from that there was labor component, roughly around Rs.20 Crores we are explaining here and Rs.7 Crores difference over last year is something which we could not pass on. But I think this will come back and so we are not talking about a big difference, getting back to the results of where we were in 2016 is possible within this financial year still.

Abhishek Shah: Got it, so effectively about Rs.27 odd Crores is basically the EBITDA difference?

Ravi Toshniwal: That is correct.

Abhishek Shah: Sir and next question is would you be able to classify the percentage of value add in each of yarn, garments and fabric and where do you plan to take it ahead in the next coming years?

Ravi Toshniwal: I would not be able to give you the difference because we do not have those numbers in spite of our attempts to try and get it and like J.K. saying it has been difficult job to be able to segregate those, but as an overall guidance I can say that going to 65% of our turnover being fabric and garment next year is the objective and that we will achieve, we hope to achieve, so that is something, which we are moving towards, in general terms we always find that if you going from fiber to garment the 90% of the fabrics that we use in our garment division are our own then the EBITDA margin definitely is better and the same thing is true for fabric, so there is no question; if we increase turnover we should increase EBITDA margin barring unforeseen costs that we are not able to translate and let the customer absorb those; that is the only challenge which happened in Q4.

Abhishek Shah: Sir just correct me if I am wrong my understanding was that each of these also there is – you could bifurcate between value add and standard product, so maybe if you cannot distinguish between the three if you could just give a percentage of total of value add in the company assets that will also be helpful? J.K.?

J.K. Jain: Yes basically if you look at the overall it's an easier way to look at the numbers without going into much detail. When we start from fiber to yarn and take the yarn commodity and we move towards the fabric and then to the garments, so anything that is converted to fabric and garment can be taken as value added and there Mr. Toshniwal has already said that this year we have moved from 56% to 59% and next year we are planning from 59% to 65%, so that way would be an easier way to understand it and that would be a consistent way to look at the overall performance because I tried my best to find out various parameters to understand how to calculate the value add in each segment, but that does not work and gives me misleading results because the prices of the product changes and the profitability of the product changes from time-to-time, so this would be, going forward, a better parameter to understand and evaluate, which is measurable and will be a consistent.

Ravi Toshniwal: I think that what we need to be measuring in terms of our performance for fast fashion and our ability to get more value from customers will be the reduced lead time that we have in our products - that will be one key factor because the whole challenge today is can you help your customers in retail to be able to have more turns in a year if there average turns are about 3 to 3.5

we need to be able to assist them to get 5 turns to 5.5, 6 turns, this is a consistent demand from all our customers, so we are looking at reducing the lead time. This is why we have promised better lead times to customers and are supporting it through airfreight and which is why we paid almost Rs.4 Crores airfreight for many of customers abroad and even within India, we have supported them with better lead time by airing goods from Ahmedabad to Bengaluru and Ahmedabad to Chennai and many other garment centres in the country, this is the support that we promise our customers that you will get better lead time from us. We have to internally restructure this part and that is the vision of our company in transforming ourselves into a integrated company where our yarn business becomes less important but still remains a big part of our business because we have capacity in yarn, which is almost three times the capacity of what we can consume in our fabric division today, so we will have to sell yarn, but we want to sell value added yarns and we do not want to use all our yarn capacity for being pre-sold, we want to have some of our yarn capacity available to produce the regular products that we make for our fabric business and reduce the lead time there and if they do not be used in our fabric business they can be sold as yarn in the market, but we do not want to come in to a situation where we have already pre-booked all our yarn capacities and pre-booked all our fabric capacities and then land up with any delivery problems, so we want to commit less, but focus on delivery more in terms of our ability to deliver fast. This will allow us to extract value because for the business of fashion it is important to have the goods there in time then there is value.

Abhishek Shah: Fair enough, that is all from my side. Thank you.

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

Ronak Morjaria: Thank you for the opportunity. I just wanted to understand since we faced the labour issues in the second half of FY2017 how is the position right now, has everything being stabilized or still we feel that there would be some time we will face such challenges?

Ravi Toshniwal: Right Ronak good question. Yes at this moment in particularly April and May did we face the same challenges and in fact probably worse than the demonetisation because April and May are the typical months where you have the maximum absenteeism anyway, so April and May were bad, but June looks okay, we were just coming towards the end of May now and basically the shortages have stopped to a larger extent now, there is no real big problems, we are reverting back in many areas to 8 hour shift from the 12 hour shift, which we have gone to as a mode, but now I think we are looking to a situation where we are standardizing certain productions and reducing our requirement for labour and looking at how we can make sure that we protect all of the value added segments and get out of the non-value added segments even if there is a labour shortage, so we should have a planned shut down rather than an unplanned shut down that increases cost much more. Our EBITDA margin should not be impacted by the fact that we are pulling the weight of many capacities that are not being utilized and is adding to the overall cost.

Ronak Morjaria: Also if you could just help me with the current capacity utilization levels for spinning and weaving?

Ravi Toshniwal: So really our utilization levels in spinning were always good, but we have faced in the last six months an average of 15% less utilization due to the effect of the labour.

Ronak Morjaria: But if you could quantify what is it currently - for FY2017 what was it at?

Ravi Toshniwal: For FY2017 I am talking about the six-month starting November or a five-month starting November we had for FY2017 a shortage in the five months of roughly around 15% to 20% spinning alone. Weaving and finishing was not a problem. We did not have any workers issues in weaving and finishing, but we had a capacity utilization in finishing which was lower than what we could have got, , we have an excess capacity in our finishing department. We can always get weaving done outside. The challenge was that the yarn department was not able to supply enough yarn and we were oversold in the yarn department and that resulted in trickle effect all the way up to the fabric business.

Ronak Morjaria: Okay, in this quarter I think there is the other income was slightly higher if you could just help me was there any onetime other income or something?

J.K. Jain: All these are routine in nature basically maybe certain exchange gain or something like that is there, but no specific to the other income all are operational in nature basically, but just for the accounting purposes have been classified as the other income.

Ronak Morjaria: Lastly, if you could just help me understand the impact of GST how would it affect us based on certain assumption like if it comes at 5% or something?

Ravi Toshniwal: If it comes at 5% it is going to be great, if it comes at 12% it will be probably neutral.

Ronak Morjaria: So whether we could be competing with cotton players or how would the situation be?

Ravi Toshniwal: If it comes in 5% then synthetic stands to gain over cotton. If it comes at 12% we will be more or less back to status quo what we are now, so that GST we have to yet wait and understand better, but the challenges for the GST is only the fall out in the market adjustment in terms of channels of sales because all of the players in the channels have to become registered and there are many in the textile business who are not yet ready, so those challenges will remain. Our clients are mainly corporates and in that sense, there should not be a problem.

Ronak Morjaria: Thank you. That it is from my side.

Moderator: Thank you. We will take the next question from the line of KR Senthilnathan from Crest Capital. Please go ahead.

KR Senthilnathan: Thank you for the opportunity. Most of my questions are answered, just only one question when you say overtime charges, what could be the percentage increase between the overtime charges and the normalized employee charges?

Ravi Toshniwal: So the overtime is paid at double the rate of the normal bill, if we are paying the worker Rs.300 a day or Rs.400 a day, overtime we will be paying Rs.800 and for those four additional hours.

KR Senthilnathan: On the other expenses like the increase in Rs.8.8 Crores in this quarter with respect to last quarter year-on-year, so how much can be reduced in the next quarter itself or in the next two to three quarters?

Ravi Toshniwal: Next quarter it could not, but in the next two to three a lot of it will be reduced, so like I said the overall projection remains to try and come back to the 12% again in FY2018.

KR Senthilnathan: What would be the net debt going forward even increasing the term loan and then reducing the long-terms loan, so what would be the debt net for the next year?

J.K. Jain: The term-loan basically we have about Rs.260 Crores loan right now and repayment next year is about Rs.70 Crores, a term loan would be close to Rs.200 Crores and the working capital is about Rs.280 Crores borrowing for the working capital, so it would be roughly 480.

KR Senthilnathan: Thank you Sir. Thank you very much.

Moderator: Thank you. Next question is from the line of Abhishek Shah from Valcore Capital. Please go ahead.

Abhishek Shah: Thank you for the opportunity again. These past events in the past three, four quarters does it actually shake us from our actual target in FY2020 of Rs.1600 Crores and 16% EBITDA?

Ravi Toshniwal: No. We think that the worst is over and we were expecting some disruptions due to demonetisation and GST, but longer-term these things are not a problem because longer-term the workers will get used to the idea of taking money in their cashless system and long-term there is no challenge about GST being a problem, so these are not issues which see affecting our strategy, our strategy has not changed, the expectations for the next year remain to be good; our product and our overall designability and integration into the global fashion supply chain business continues and we have also no capex planned, nothing has changed on those scores that we do not need to invest in capex. We need to continue to increase value added production and form the partnerships necessary to be in supply chain with the best in the world companies like Takisada, which we have delivered to and we continue to do so. All of that is doing fine, so I do not see any change in our strategy for longer-term if you are saying 2020 kind of scenario we are absolutely on course.

J.K. Jain: New developments will add on further for the betterment of the overall performance.

Abhishek Shah: Got it, Sir, what sort of maintenance capex can we expect for the next three years?

Ravi Toshniwal: I would say about Rs.30 Crores, Rs.32, Rs.30, and Rs.35 like that annually.

Abhishek Shah: Okay so there could be significant debt reduction right, any specific numbers that you are targeting as such?

Ravi Toshniwal: Yes, J.K. can you elaborate on what would be the debt reduction scenario given that we are not making any capex?

J.K. Jain: Yes basically as I told you in the previous question also that my current capex is about Rs.260 Crores and we are repaying it, so after the next couple of years repayment and the repayment is almost about Rs.65 to Rs.70 Crores a year, so this is the rate that which you will be repaying and for the working capital our borrowing is about Rs.300 Crores, so that will be maintained basically or rather we will try to reduce it, but maybe because of the increased working capital requirement for the GST and all that of working capital. Even if we do not anticipate major reduction the term reduction will definitely happen and we will continue to reduce our debt by about Rs.50, Rs.60 Crores every year.

Abhishek Shah: Okay so Rs.50, Rs.60 Crores every year, so this is net of your cash flows that you would need for maintenance capex right?

J.K. Jain: Yes maintenance capex is already charged to the revenue.

Abhishek Shah: Fair enough Sir and how much do you expect your garmenting and fabrics to be as a percentage of total turnover, can you take it to over 75, 80?

Ravi Toshniwal: 65 at the end of this financial year and we will continue to increase it, so in 2020 scenario yes what you are saying is very much possible.

Abhishek Shah: That is all from my side. Thank you.

Moderator: Thank you. We take the next question from the line of Rohith Potti from Marshmellow Capital. Please go ahead.

Rohith Potti: Thank you for this opportunity. I appreciate your clarity and detail with which you answer the questions. My first question is on your fabric and garments given that as a focus I was wondering how many customers do you have right now and what do the top five, top 10 customers contribute to the total revenue?

Ravi Toshniwal: Rohith, we have customers who are both in India and abroad and turnover between our fabric and garment, domestic and export business is roughly around 50:50, most of the clients we have are corporates, so in India typically our client base would be the clutch of brands owned by the Arvind Group, which is like the Arrow brand and the other Arvind brands, which are managed here, Lee and other brands. Then there is a group managed by the Aditya Birla Group, so all of those - Allen Solly, Louis Philippe, Van Heusen and all those brands and third is the brands managed by the Raymond's Group, which is Park Avenue and Parx and those brands, so those three are probably major customers of the domestic business, other than that we have retailers and there are private label brands, so we have private label suppliers to the Pantaloon which is now ABVP and also the Shopper Stop and the retail in Life Style and these businesses have been growing in the domestic market as we have seen a resurgence in fact of the interest in fashion in retail in India in brick and mortar comparatively and then the export customers that we have are mainly in the US. Our biggest turnover in exports is Rs.150 Crores roughly in the US then we have the UK, which is separately from Europe, then Europe and then Japan, so our major markets are those and Japan would right now be around at Rs.25 Crores that is expected to go to 40 Crores US will go from about 150 to 160, 170 more or less maintain there and we expect Europe also to increase significantly.

Rohith Potti: Okay, got it. Thank you. So the next question I have is when you say working on reducing the lead time to add value to the customer, could you please elaborate it a little more, so I understand the integrated approach that we are following which allows us to reduce the lead time in our production, in addition to that what is that that we are working towards I just wanted to know?

Ravi Toshniwal: See it is our ability to be able to predict trends and put some goods on the floor with piece tide fast and small fine articles to support customers because typically now the trend is let us get in some newness into the market by test marketing a few products, so take a little trial run or something and if it works scale it up really fast and then move to next thing, this takes a lot of integrated planning and this is exactly what we are doing, we have actually managed to reduce our lead time from what used to be 90 days to deliver fabric and about 120 to deliver garment, we brought that down to 45 days for fabric and delivering garments within 75 days. So this is the change that we are talking about.

Rohith Potti: I guess in this scheme of things like trying to predict fashion trends and then delivering it quickly, so our design house that we have would be quite important, so could you maybe give us an idea of what portion of the goods that we manufacture the garments that we manufacture for a client come from our in house, from our design team?

Ravi Toshniwal: So in terms of the fabric turnover, which is now about Rs.500 Crores, everything is designed by our design team. We make our fabric collections entirely on our own. We are not making fabric to customer's orders, we are presenting the collections as they take our collections and go forward. In the garment business, I would say 50:50 some designs comes from our in house garments trend prediction team and some of them are given by the customers, brand themselves believe in a particular direction, but they are always happy to see that we are proactive and we give them ideas on where the market is going and we are able to do that for most brands in the world, right now we have a very good order from Calvin Klein and we are starting a relationship with Michael Kors, both of these are fast fashion, I would not say they are fast fashion, but let us say up market and moving into fast fashion because they only have about 3.5 turns right now, but they want to get it up 5.5 turns and that is where we think we can help them and we know that a partnership of this sort is something that they want, so we are getting a very good response from such customers.

Rohith Potti: Understood, separately, I might be wrong in my understanding just if I assume that these form let us say relatively nearly less than 20% of the supplies that are sourced by your Arvind Group or your Takisada; would it make sense to focus on client mining these customers, which will enhance the productivity within the factory thereby enhancing the margins. Is that the strategy or you looking for both clients mining as well as increasing the number of clients as well?

Ravi Toshniwal: We are focusing on the top 10, 15 clients that we have and building better relationships with them and increasing business with them more than adding more clients. Adding more clients at this point is not that necessary for us because all of the clients we have are very large and in that sense, we do not have a very big portion of their business, so there is a large opportunity for us to get more. We do not need to go harvesting new opportunities as much as getting more out of each opportunity that we already have.

Rohith Potti: Okay, got it. That is it from my end. Thank you Sir.

Moderator: Thank you. Next question is from the line of Sameer Patil an Individual Investor. Please go ahead.

Sameer Patil: Thank you for the opportunity. Regarding those partnership I would like to know a little better, so how does the pricing with the partner work?

Ravi Toshniwal: So Sameer as far as Takisada is concerned it is a trading company more or less, which buys the fabric from us and depending on the supply chain that they need, if it is to be warehoused, they warehouse the fabric in Japan and distribute then for garment making within Vietnam, China wherever it is required for fast fashion, so that is simply a buy and sell arrangement as far as Takisada is concerned.

Sameer Patil: So any profit sharing kind of element is there?

Ravi Toshniwal: With Takisada, no, it is simply a buy and sells arrangement, there is no profit sharing, they are like a very large trading house who has agreed not to buy fabrics that are of the type that we make from anybody else in India. So essentially the only thing that they are telling us is that we have chosen you as our Indian partner and we will not go to anybody else and I know that the Japanese are very reliable on that score.

Sameer Patil: Sir I just missed that comments from your side that Rs.24 Crores coming to Rs.40 Crores kind of revenue?

Ravi Toshniwal: From Japan?

Sameer Patil: Yes, so can you please repeat that?

Ravi Toshniwal: Yes it is the same, so you got that part; that is what we are expecting in this financial year.

Sameer Patil: And you said something will double in the other partnership?

Ravi Toshniwal: That is in Europe and I do not know what the base figure is, but whatever the base figure is in Europe we are expecting that to also double roughly.

Sameer Patil: Thank you Sir. That is all from my side.

Moderator: Thank you. Well that was the last question, I now hand the floor over to Mr. Ravi Toshniwal for his closing comments.

Ravi Toshniwal: Ladies and gentlemen, we have not had very good closing year in this financial year 2017 and I do take personal responsibility for the fact that we have not been able to deliver the results as well as we would have liked; however, our focus remains that the worst is over and expectations are that the next year will be better. We continue to do what we believe in and we are looking forward to better times very soon and I would like to thank all of you for joining the call and I hope that I was able to answer all your questions and if you have any further queries, you please feel free to get in touch with SGA and they will be able to get back to me or Mr. Jain and may be able to address your queries. We thank you for your patience and we thank you for your support.

J.K. Jain: Thanks everyone.

Moderator: Thank you. Ladies and gentlemen on behalf of Banswara Syntex Limited we conclude this conference. Thank you for joining, you may now disconnect your lines.