FILATEX INDIA LIMITED

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National Stock Exchange of India Limited
Listing Department
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Bandra-Kurla Complex, Bandra (E)
Mumbai-400 051
Security Symbol: **FILATEX**

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Security Code: **526227**

Sub: Transcript of the Earnings Conference call held on 1st August, 2022 for the Q1 FY23 results of the Company

Dear Sirs/ Madam,

In continuation of our letter dated 28th July, 2022 and pursuant to Regulation 30(6) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed the transcript in respect of the Earnings Conference call held on 1st August, 2022 for the Q1 FY23 results of the Company.

This is for your information and records please.

Thanking you,

Yours faithfully,
For FILATEX INDIA LIMITED

COMPANY SECRETARY

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"Filatex India Limited
Q1 FY2023 Earnings Conference Call"

August 01, 2022

MANAGEMENT: **MR. MADHU SUDHAN BHAGERIA -** CHAIRMAN & MANAGING DIRECTOR - FILATEX INDIA LIMITED
MR. ASHOK CHAUHAN – EXECUTIVE DIRECTOR - FILATEX INDIA LIMITED
MS. STUTI BHAGERIA – SENIOR VICE PRESIDENT, CORPORATE STRATEGY - FILATEX INDIA LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the Filatex India Limited Q1 FY2023 Earnings Conference Call. 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 then '0' on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Madhu Sudhan Bhageria. Thank you and over to you Sir!

Madhu S Bhageria: Thank you. Good afternoon and a warm welcome to all of you attending this earning call for the quarter ended June 2022. Joining me in this call are Mr. Ashok Chauhan and Ms. Stuti Bhageria.

I presume you would have certainly gone through the presentation, which has been uploaded on our website as well as on the stock exchange.

After a good performance in FY22, this quarter Q1 FY23 has been rather turbulent for the global economy and international trade strained by challenges on all fronts, including ever-changing variants of covid, supply chain disruptions, skyrocketing energy and daily consumption commodity prices and geo-political tensions. Politically, the war between Russia and Ukraine has caused steep increase in oil and food prices, aggravating the cost of living in all countries. Political and economic uncertainties, along with degradation of natural environment have brought a series of challenges which have accelerated the competition for survival.

The first quarter has been extremely tough for Indian Polyester manufacturers. The conflict between Russia and Ukraine culminated in a war on 24th Feb 2022. The general expectation was that it would be of a short duration before a peace accord would be signed. However, the war has dragged on leading to sanctions and consequent extreme economic upheavals in global markets. The immediate effect was felt on crude and currency. The extreme volatility of crude prices, further aggravated by a falling rupee has led to steep increase in

RM prices, mainly the PTA. In the domestic market the PTA manufacturers supply material at prices on parity with landed cost of imported material. As most of the PTA is sourced from far East, the impact is high on account high freights which gets added to FOB costs. The rise in raw material inputs has strained the margins severely as we could not pass through this increase due to low demand. The exports were badly hit due to high freight rates. Uncompetitive prices in export market increased the supply in the domestic market as plant capacity utilization was high amongst domestic manufacturers. Excess supply in the domestic market also led to squeeze on the margins.

Despite of all such adversities, we managed a production volume of 85,449 MT as against 77,959 MT in Q1FY22. The sale quantity in this quarter is 83,066 MT as against 67,704 MT in Q1FY22. The sales revenue stands at Rs 1023 Cr as against 699 Cr in Q1 FY22. The high revenue is on account of rather high input costs. The EBIDTA in Q1 FY 23 is 74.31 Cr as against 101.17 Cr on year-on-year basis. PBT numbers for this quarter are Rs 58.50 Cr against 76.12 in Q1FY22. PAT is INR 43.4 Cr in this quarter vs 52.14 Cr in Q1FY22. The increase in top line is the effect of high raw material prices. To give a better picture, the average melt price (an accepted industry indicator of PTA and MEG prices) in this quarter was Rs 89/Kg vs Rs 68/Kg last year.

Volatility of prices generally mutes the demand of yarns/textiles. However, this situation in the market can't last for long. The demand has to pick up as yarn users have only limited stocks. They have to start their procurement and it will initially be a shift of inventory piled up at manufacturers' end and as demand firms up, the prices will also move up. Shipping rates are also coming down though these are still higher than the rates of pre covid period. In export market, the freight from India was generally lower than that from China. However, due to covid restrictions globally, the freight rates from China became lower than that from India thereby killing possibilities of exports. Now this differential has come down and is likely to be in favour of India which is obviously logical. Domestic demand in China has also picked up thereby diluting the thrust from exports. With some movement in exports of yarn from

India is likely to improve demand and margin in domestic market. Besides these external phenomena, in our industry first quarter is generally sluggish and momentum builds up in the second quarter onwards, improving further close to festive season. As I speak to you, the offtake from the plants has improved and inventories are reducing.

A brief word about the textile industry in general. The global factors have cast shadows across the textile industry. The high inflation effects are visible across all industry segments including on daily essential needs of the common man. Government is looking at ways and means to manage the supply chains for all essential items, contain the inflation and currency fluctuations for reviving the economy.

As you may recall, around two and half years ago we had initiated in-house research work on "chemical recycling" of polyester waste in all forms. After extensive research and successful lab trials we moved ahead to set up a pilot plant of capacity 1.5 MT per day. One section of the plant "Depolymerization" was already commissioned. The polymerization part was under testing which has been completed now. We have started our trial runs to establish the process parameters and quality checks. While carrying out our trials we had applied to "Global Recycled Standard "who through their authorised external agency in India, M/s Control Union have audited every step of our chemical recycling process and inward and outward system. We have been awarded the GRS certificate for pre-consumer as well as post-consumer waste. We have planned for a trial period of around six months before initiating market seeding.

The work on our planned project of debottlenecking melt capacity of 50 MT per day and manufacturing lines of 120 MT per day POY is progressing well. A part of the lines are already commissioned. Some equipment, stuck at vendors' workshops due to shipping constraints, has now been received. As planned, we will complete the installation and commissioning activities by August 2022.

At our plant at Dadra, we have scrapped some old spinning lines and new lines have been installed and commissioned. Though this step is more of a renovation towards quality improvement and not towards capacity addition, the improved productivity of new winder will increase the output by around 6-8 MT per day and also reduce operating costs.

We have signed up with a reputed renewable power generation company, M/S Fourth Partner, for a hybrid wind & solar power plant for a capacity of 10.8 MW. Our company will have to invest 10.35 Cr for a 26% stake in the project to qualify as Captive User which allows waiver of cross-subsidy and additional surcharge. The purchase power agreement has been signed for a period of 25 years. The generation company has scheduled commissioning of the plant by March 2023 and has committed to supply around 50 Million Units annually. The expected benefit will be more than Rs.10 Cr annually.

I am pleased to share that our credit rating has improved to A+ from A for Long Term Bank Facilities term loans and A1+ for Short Term Bank facilities.

We remain optimistic about future prospects of our business. We will continue to focus our work on development of polyester products and strive to attain the goals of environment protection, energy saving and carbon reduction. Our R&D efforts will continue to develop new technologies and products towards attempts to achieve sustainability and a circular economy in synthetic fibres.

Thank you. Now we can move to questions & answer.

Moderator: Thank you very much Sir. Ladies and gentlemen, we will now begin the question and answer session. We will take the first question from the line of Ashish Sinhal from ASK Investments. Please go ahead.

Ashish Sinhal: Very good afternoon, Sir. Actually, I just wanted to know the outlook for the next 12 months. How the industry will perform and how our company will perform and secondly given income tax raid, so what is the status of the same like is it resolved or the matter is still going on?

Madhu S Bhageria: The first question like outlook for this full year, first quarter results are already out and second quarter I think we should be mainly similar or slightly better than the first quarter. Then the third and fourth quarter we should do significantly better than these two quarters, so overall things should improve. The demand is picking up and traditionally also third & fourth quarter are very good and the demand picks up from second quarter, so we can see demand picking up as the inventories have started reducing and material is moving. Also, export has also started picking up now, which was very slow in the first quarter, so that will help to reduce the pressure in the local market. Regarding the IT, it is still going on it has not been concluded. One assessment was done and for that we have gone in the appeal, rest will happen and I think by this year-end most of the assessments will happen and then whatever the other things we have to go and appeal and then further on, so it is a long process.

Ashish Sinhal: Okay, Sir. Thank you so much.

Moderator: Thank you. The next question is from the line of Vikrant Kashyap from KR Choksey Shares and Securities. Please go ahead.

Vikrant Kashyap: Good evening, Sir. Definitely a tough quarter, a lot of adverse things happened, you did highlight that since scenarios are improving and Q3 and Q4 and this quarter, we managed to maintain our volume, just trying to understand why we taken a hit on margins so badly, still we manage to maintain our volumes?

Madhu S Bhageria: Even by reducing the volumes the margins are going to be a hit because overall everybody in the industry is not reducing the volumes and so the volumes are more than the demand, in any commodity then the margins come under pressure very fast and similarly on the other side if the demand is slightly more than the supply, the margins improve. This is a phenomenon of commodity. While reducing volumes we would have added on the cost of production. So we did not reduce the volumes. Just by reducing our volume will not help the market. The overall industry has to reduce some volumes, which is not in our hand, that might have helped a little bit.

Vikrant Kashyap: Got your point. Since we had seen the volatility in crude continue in this quarter also and supply chains as we understand from our sources also has not been resolved to the previous levels because of the new COVID variant that came in China, so do you think this quarter will largely be impacted?

Madhu S Bhageria: This quarter things have started improving because the demand in this quarter is generally better than first quarter. First quarter lot of labor goes back to villages so the productivity in the fabric and garment side is also low. Now for the festive and winter season, the production in garments and fabric side increases from this quarter onwards. So I do not think it should be going down. We should be able to do slightly better than the first quarter, I think.

Vikrant Kashyap: Okay, barring second quarter since we are into a recovery phase after this jolt, can we expect similar volumes and margins that we had earlier for Q3-Q4?

Madhu S Bhageria: Volume wise still we are quite okay in this quarter also. But yes going forward volumes will improve and from third and fourth quarter, the extra production which we have added in this quarter will also be fully operational and would be utilized in third and fourth quarter. The 120 tons per day of capacity which partially has already started half of it and half of it will start in this month.

Vikrant Kashyap: Okay, another thing that has been impacting our performance is high fuel cost and we understand that coal prices is at a YTD base level more than 130% and our plant I understand is still not up and running, so how we are managing this?

Madhu S Bhageria: Yes that is a problem for everyone. The coal prices have not come down. As and when they come down then only we will be able to operate the power plant but we are trying to find out other ways. We have entered into an agreement with Fourth Partner, so that from next year onwards they will be giving us renewable energy of 50 million units, so there we have a saving of around Rs.2-3 per unit. And we are also exploring from one more company to go into a solar agreement so that we can have these kind of things where the cost of energy will never go up and we have a fixed price agreement with them which is not pegged to the energy cost. We are trying whatever is possible to reduce cost, so next year hopefully we should get the benefits of these.

Vikrant Kashyap: Great Sir, also the recyclable trial plant is up and running…

Madhu S Bhageria: Yes, that has just started.

Vikrant Kashyap: Since our last plant we have seen the quality and it was up to the mark, so when we have our plans for big plant to come in and what are our updates on land acquisitions that we are looking at?

Madhu S Bhageria: Land acquisition we are already trying. There is a land available in Maharashtra, which we have already applied for and that has been a long time. Hopefully we should get that soon. This recycling process would take another six months for us to improve our quality parameters and the process conditions. Once that is done then only we will commit ourselves for a big plant. Till then we will do this parallel work like acquiring land and talking to the machinery suppliers with their deliveries and other things but the commitment will only happen once we are sure about the process and the quality from this small plant.

Vikrant Kashyap: Our plans for FY2024 end are still intact or it will delay?

Madhu S Bhageria: I think by 2024 end we should have the plant starting.

Vikrant Kashyap: Okay and this POY lines that we have commissioned in the part, is it still under process I understand, so this will be good enough to take care of our growth till then?

Madhu S Bhageria: Yes, that will be able to take care of growth and maybe we will do some small other additions. We are looking at other ways to do some debottlenecking and increase our production, so that is still going on. Major project we are going to take as and when the market and the world stabilizes. See today the world is also in a lot of turmoil. We want to wait and see how the world stabilizes then only commit some funds for a bigger project. We do not want to commit any big project in such kind of world environment.

Vikrant Kashyap: I got your point and you are very right on your strategy, I am just trying to understand what best we can do to do value addition from here on, since we have done a lot of value addition or value mix?

Madhu S Bhageria: We are exploring some possibilities. There is one more quality of yarn which is called cationic yarn. We are exploring to add some polymerization to make cationic chips and make cationic yarn out of that. Also to add some more winder in the existing system to increase some productivity. Small small things wherever we feel by spending like Rs.20-50 Crores kind of a thing and we can add productivity and increase value addition that we will do till the world stabilizes and when we see that we can commit some bigger project because bigger project would now mean, other than this recycle project, if you go for more polymerization at least Rs.1000-1200 Crores, so I do not want to commit such huge funds if the world does not look to be stabilizing.

Vikrant Kashyap: Can you throw some light on cationic yarn, what is the industry size, what are the markets we are looking at if we are going up with new value addition?

Madhu S Bhageria: Today, total industry size of polyester filament yarn is roughly 4.5 million tons in India and overall in the world it would be close to 50 million tons and the growth rate worldwide, barring these 2-3 years of disturbance, has been around 5-6%, so every year you need around 2.5 to 3 million tons of extra filament yarn in the world which is the driver of the textile growth because around 70- 80% of the textile requirement is made through polyester filament yarn. There is no growth in natural fibers as per the volumes are there.

Vikrant Kashyap: I was just trying to bring your focus on cationic yarn; can you scale out the size of this particular yarn?

Madhu S Bhageria: It is a small size and we would add maybe another 60 tons per day of production of this which we are still exploring and we are talking to the suppliers. Once we take it up it will be operational by end of first quarter next financial year, so June 2023.

Vikrant Kashyap: Okay, do we have global or domestic demand for this yarn?

Madhu S Bhageria: There is lot of domestic demand for this yarn, global I do not think much but domestic demand is quite healthy. Cationic gives lot of luster and deep dyeability to the yarn and the dyes which are used in this penetrate inside the yarn, so they do not get faded, so the high quality fabrics require these kind of yarns and embroidery thread also uses these kind of yarns.

Vikrant Kashyap: Thank you very much for your answer. Wish you best of luck.

Moderator: Thank you. We will take the next question is from the line of Samra Siddiqui from Revolve Advisory Private Limited. Please go ahead.

Samra Siddiqui: Good evening Sir. I just read the news that the company has commissioned plant for recycling a polyester waste of 1500 kg per day for recycle polyester at Dahej unit, so I just wanted to know how it is going to help in improving the numbers. Are we going in a different sort of category? And the second question is what is the geographical split this year in terms of India and outside India? Thank you.

Madhu S Bhageria: This is a test plant, this is not going to improve any numbers, this is just going to validate our technology and we will be able to improve the quality which we want to make in a bigger plant. This is not a commercial plant, although yes we can sell some product in the market but that stage will come later on once we have improved the quality and it is marketable. This is mostly a test plant. Right now our product mix mostly I think more than 90% we have sold locally in this quarter because the exports potential was very low.

Samra Siddiqui: Any new product category this year going forward for improving the revenue?

Madhu S Bhageria: No, we are just adding more volume this year as of now, no new category of products.

Samra Siddiqui: Thank you.

Moderator: Thank you. We will take a next question from the line of Ajit Sen an Individual Investor. Please go ahead.

Ajit Sen: Thanks a lot. First question is on export. You indicated that export was not competitive this quarter, but if you look at most of the currencies would have depreciated. So in that front the incompetitiveness is coming from which side, is it more lesser INR depreciation or your cost going up?

Madhu S Bhageria: The export because of INR depreciation does not help much, because 70-75% is the raw material cost, which is spent with dollar only and then we have to compete against China. We have to see what is their cost and last quarter China has been dumping in the export market because their local market was not doing so well and also the freights were upward. China was able to get a better freight to the countries where we export than what we are getting from India, so it was difficult to compete with them that is why it has dropped. There is nothing to do with currency. It does not make much difference in the export whether it appreciates or depreciates because the large amount is only reflected in the raw material prices. For now freight cost has been increasing in China and some small reduction has happened in India, so export has started picking up. We are getting now some orders, so maybe in this quarter our export would be better than last quarter.

Ajit Sen: Second question is if we have to look at the business from next 2-3 year perspective what is the EBITDA per kg that is the bare minimum is what we reported in this quarter is the representative or it should definitely be double digit because this quarter our EBITDA would be around Rs.8 per kg?

Madhu S Bhageria: Yes, this quarter definitely is low, this quarter our EBITDA per kg is around Rs.9, but I think we should do around Rs.13-14 going forward and that should be a sustainable margin.

Ajit Sen: Okay. Second was are you tracking the PLI scheme because you are an indirect beneficiary if those plants start coming in, are you tracking that by any chance?

Madhu S Bhageria: Yes, we are tracking, there are a lot of companies who are putting plants in that and then once they come in stream, we will get a benefit because they will use our yarn as raw material.

Ajit Sen: Can we assume that this PLI scheme benefit would be there from 2025 onwards not before that or how are you tracking it and what is your understanding of that?

Madhu S Bhageria: The major benefit should start coming from FY25 only because just started and people will take at least 1-1.5 years to implement their projects that is the minimum time for green field project, most of them are Greenfield projects starting from scratch.

Ajit Sen: By chance, if at all, I am just trying to get the information, if possible, what kind of demand it can have, is there any thought process any work done or available given that we had 4.5 million kind of a demand currently, what kind of demand it could have if the PLI scheme become the great success, is there any data available?

Madhu S Bhageria: The PLI scheme will only add capacity. Demand comes from people only, PLI will add only capacity, it is not necessary they would be able to run full capacity, but I think at least India should do 12% to 14% per annum CAGR in synthetic yarns and fabrics because now government is giving incentives so exports from India should increase of these items. Internal consumption will not go so high, but export should go high because of the incremental demand in the world, India should be able to take a major share in that which was earlier being taken up by China. In incremental demand I think India should be able to take more part which will help us in increasing demand for yarn in turn.

Ajit Sen: Lastly you also referred that the cost has really gone up significantly in the quarter, the input prices, now how do we assess or look at this import parity prices, how volatile because last two years have been very different in that sense, so you cannot look at last two years, from here on how should we assess or look at the volatility of the import parity prices, if you can help us understand that would be great?

Madhu S Bhageria: Demand is the main thing, if the demand and the uncertainties are not there in the world then the volatility will also reduce. Because of the war there is a lot of volatility that has been created.

Ajit Sen: Thank you very much.

Moderator: Thank you. We will take the next question from the line of Basant Pandey an Individual Investor. Please go ahead.

Basant Pandey: Thank you for the opportunity. As I understand the main growth driver going ahead for us would be the recycling plant, which will transform us from a commodity company into basically a specialty company sort of, so how differentiate our process from the existing chemical process utilizing glycolysis which is already in existing, is there any major difference or is it around the same line?

Madhu S Bhageria: I cannot disclose you that, but there are not too many people who are doing chemical recycling. As far as I know only Polygenta is one company who is doing a chemical recycling.

Basant Pandey: I am talking about worldwide Sir.

Madhu S Bhageria: Worldwide also there are hardly any companies who are come in big production, there could be people doing 1-4 tons but nothing is like 50 to 100 tons, they are all thinking and in the implemented stage, no technology has been perfected as yet which can guarantee a good product by chemical recycling, so everybody is in the similar stage maybe one step ahead or one step back than us, and there are hardly five to six people who are trying it out worldwide, it is not too many people also trying out.

Basant Pandey: Basically, these could be getting first-mover advantage also in this?

Madhu S Bhageria: It could get us first-mover advantage if we are able to start our plant by FY2024 end. I do not think more than one or two people will be able to start before that.

Basant Pandey: Thank you Sir. Another thing we have just taken a new debt of Rs.187 Crores, so is this just a normal rollover of the old debts or is it something new?

Madhu S Bhageria: No, must be rollover, we have taken only new debt of around Rs.50 Crores for the new machines which we have imported that is a ECB loan which we have taken, which we get in Europe, rupee loan we have not taken any rupee loan.

Basant Pandey: The loan which is showing right now from Kotak Bank is basically a rollover?

Madhu S Bhageria: No, that is a working capital, IndusInd Bank. That is a working capital loan. It is not a fresh like we have redistributed, and we have increased some working capital loan because the turnover has gone up and also we started importing raw materials more than depending on the local supplier, so requirement of LCs has gone up, the imports you need LC one month before shipment and transit time and all those things.

Basant Pandey: You already have a line from Union Bank Rs.1200 Crores or something?

Madhu S Bhageria: We have Rs.750 Crores of total working capital credit which is 550 non-fund, 200 fund based and we are trying to increase by 200 more. It is just a precaution to keep some extra money in the working capital, it takes almost four to six months to get sanctions from all the banks and like the branches are going up so it would put a drain on the working capital, so as a precaution I want to always have some extra working capital in the system.

Basant Pandey: Our debt level right now would be what Sir?

Madhu S Bhageria: Debt level in term loan would be close to around Rs.400 Crores and working capital we are using only LCs and BGs, utilization of CC limits is very minimal maybe Rs.10-Rs.15 Crores.

Basant Pandey: This Rs.400 Crores we would not be including the foreign exchange loan right?

Madhu S Bhageria: No, it includes everything.

Basant Pandey: Thank you so much Sir.

Moderator: Thank you. As there are no further questions from the participants, I would now like to hand the conference back to Mr. Bhageria for closing comments. Over to you Sir!

Madhu S Bhageria: I would like to thank all the participants for sparing their time and joining us for the conference call. Bye. See you in the next conference call. Thank you.

Moderator: Thank you members of the management. On behalf of Filatex India Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.