



FILATEX INDIA LIMITED

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Listing Department
25th Floor, Pheroze Jeejeebhoy Towers
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Subject: Earnings Call on 11th May, 2017

Dear Sir,

This is in continuation to our letter dated 10th May, 2017 on the Earnings Call on 11th May, 2017. Please find enclosed the transcript in respect of the same.

This is for your information and records please.

Thanking You,

Yours Faithfully,
For FILATEX INDIA LIMITED

Ramya

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“Filatex India Ltd Q4 FY17 Earnings Conference Call”

May 11, 2017



MANAGEMENT:

MR. MADHU SUDHAN BHAGERIA – CHAIRMAN & MANAGING DIRECTOR

MR. ASHOK CHAUHAN – EXECUTIVE DIRECTOR

MR. R. P. GUPTA – CHIEF FINANCIAL OFFICER



Filatex India Limited
May 11, 2017

STELLAR IR ADVISORS – INVESTOR RELATIONS ADVISOR

Moderator

Ladies and gentlemen, good day and welcome to the Filatex India Limited Q4 FY `17 Earnings Conference Call hosted by Prabhudas Lilladher Private Limited. As a reminder all participant lines will be in the listen only mode and there will be an opportunity free to ask questions after the presentation concludes. Should you need assistance during the conference call please signal the operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Gaurav Jagani from Prabhudas Lilladher Private Limited. Thank you and over to you Mr. Jagani.

Mr. Gaurav Jagani

Thank you. So we have with us from the management Mr. Madhu Sudhan Bhageria, who is Chairman and Managing Director, and Mr. R P Gupta, who is the Chief Financial Officer. So we will just start with a brief introduction about the company and the results that's gone by. And then we can open the floor for questions and answers. Over to you Mr. Bhageria.

Mr. Madhu Sudhan Bhageria

Thank you. Hello everyone. I once again welcome you all to our new conference call for the year ended March 2017. I have with me Mr. Ashok Chauhan who is our Executive Director and Mr. R P Gupta who is the CFO of the company, along with Stellar IR Advisors Private Limited, our Investor Relations Advisor.

As all of you by now would be aware about Filatex India and its business, for anyone joining new and on this call, let me give a quick recap. Filatex is a major mid-sized synthetic filament yarn manufacturer having a diverse range of products. Prior to manufacturing the promoters were one of the leading traders of synthetic yarn with over two decades of industry experience. Filatex started with a small plant at Noida with facilities for manufacturing mono-filament commencing our production in 1994. Next step was an expansion to a bigger unit at Dadra and Nagar Haveli which started commercial production in 1996. Over the years Dadra has grown to a capacity of 130 tonnes per day producing a wide variety of products from poly-propylene to polyester. The unit based on bought out chips has multiple lines giving us the flexibility of offering customised products. POY and FDY in all Denier and colours.

Continuing our quest for expansion after exhausting space in Dadra we moved to Dahej in Gujarat where we have set up an integrated manufacturing facility with continuous polymerisation which helps us structure a little more margin than chips based yarn spinning. Yarn capacity is 600 tonnes per day of polymerisation and 260 tonnes per day of POY. And it commenced production in July 2012. During the initial two years at Dahej Filatex was primarily manufacturing POY and Polyester chips. To add value added products to its portfolio, the company after thorough study of the market decided to add fully drawn yarns capacity of 115 tonnes per day which was operational in March



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2016 and has been running almost at 100% capacity since then. The company also went for forward integration at its Dahej plant to improve the product mix and added 40 texturizing machines the installation of which was completed by September 2016.

Key input to draw textured yarn is the in-house manufactured POY. Additions of texturizing capacity have opened up a large market spread all over the country and abroad. POY under DTY facilities under one roof gives us manufacturing flexibility to meet customers' demand at short notice. We have made rapid strides in exporting DTY. At present our export contribution is around 18% to our overall revenues. And more than 50% of our DTY production is being exported. Our contribution from export is continuously increasing. We are exporting to more than 28 countries such as Brazil, Korea, Bangladesh, Egypt, Turkey etc. In Q4 FY '17 the company reported 23.6% of export volume in volume terms. And during the full year it was 18.2% in volume terms. Our value addition of DTY at dahej plant qualifies for 5% interest subsidy for 5 years on reducing balance under tuff scheme, both from central and state. On industry front we are witnessing changing in lifestyle like increasing emphasis on fitness for changing fashion trends, increasing women participation in work force etc. which are driving the trends in the end products. In fact if such trend is passing along the textile value chain which in turn has resulted in high demand of the fibres that can fulfil the requirements at an affordable price. In this context polyester is gaining wide acceptance in end use categories like sportswear, leisure wear, woman dresses, home textile, automotive, carpets etc.

I am delighted to inform that as envisaged the addition of value added products has helped the company to report significant growth in revenue and profitability during financial year 2017. During Q4 FY '17 the company reported operating revenues of 449 crores which grew by robust 28% quarter on quarter as compared to Rs 349 crores in corresponding quarters Q4 FY '16. During FY '17 the company reported revenues of 1551 crores. A hefty 21% year on year as compared to 1278 crores in corresponding period last year. EBITDA for the quarter is Rs. 38 crores which grew by 35% on quarter on quarter as compared to 28 crores in corresponding quarter. The EBITDA margins during the quarter was 8.4%. Net profit for Q4 FY '17 is 13.08 crores as compared to Q4 FY '16 which is 13.65. The slight decline is on account of taxation. However the PBT is 17.65 for Q4 FY '17 as against 12.65 crores for Q4 FY '16. Sizable increase of 40%. EBITDA for financial year FY '17 is Rs. 133 crores as against 87 crores in FY '16. A steady growth of 52% year on year basis. EBITDA margins during the year FY '17 was at 8.57%. For FY '17 we recorded a net profit of 41 crores as compared to 26 crores in FY '16, a substantial growth of 57% on year on year basis.

We are now in the process of implementing Bright polymer capacity of 300 tonnes per day at Dahej plant. We have achieved the financial closure and basic design and engineering has been completed. The civil works and fabrication of vessels and piping are in full swing. Ordering of utility and other items are also in progress. We also expect a VAT/GST refund on our ongoing capacity addition of Bright polymer at Dahej Plant under state government incentive scheme. The Bright polymer will be utilised to produce Bright FDY, Bright POY and Bright chips. Bright yarns are gaining increasing acceptance in non-apparel applications as well and growth in demand is good and sustainable. And the company already has operating polymerisation capacity. The Bright polymer line will be at a fractional cost as compared to Greenfield projects. The company has not incurred any expense on land and its development for boundary wall drainage, infrastructure etc. Infrastructure requirements like water, power, and utilities are for



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incremental capacity only. No additional top managerial manpower is needed. Additional requirements will be only at the direct labour and supervisors. When the Bright polymer would be available, the company will have a diverse product basket of yarns in both polymers Bright and semi-dull for POY, DTY and FDY in all varieties of deniers and colours. We expect to commission the Bright facility by February 2018.

Now GST is going to be implemented hopefully by July 2017. I'd just like to inform that GST will be good for the company because that will open up the pan India market. As of now if sell outside Gujarat we have to bear 2% of CST with some of our competitors who have facilities in Dadra, Nagar Haveli and Daman, have exemption. So we are at a disadvantage as compared to some of our competitors. So that will all go away. So hopefully GST will give a big boost to textile industry also.

This is in brief an update which I have shared with you. I will be pleased to respond to your questions that anyone may like to ask. Thank you.

Moderator

Thank you. Ladies and gentlemen we will now begin the question and answer session. Anyone wishing to ask a question may please press * and 1 on their touch tone phone. If you wish to remove yourself from the question queue you may enter * and 2. Participants are requested to use only handsets while asking a question. Ladies and gentlemen we will wait for a moment while the question queue assembles.

We take the first question from the line of Suridh Deora from Mentor Capital. Please go ahead.

Mr. Suridh Deora

Hi good morning sir. I have two questions. My first question is on the incremental capacity for Bright that you're putting up. Could you throw some more light on what the margins will be in this business?

Mr. Madhu Sudhan Bhageria

Margins in Bright are better than semi-dull. They have you can say about 2-3% better margins than semi-dull in Bright yarns.

Mr. Suridh Deora

Absolutely. If I understand correctly I think your gross margins or the deltas on semi-dull right now are in the region of about 20%. So is that the only cost? I mean your raw material cost and then the cost of your power and fuel which is another 5%. Is that the only cost which you have to incur and I can assume that all your other fixed overheads would all be the same?

Mr. Madhu Sudhan Bhageria

Yes. Cost would be slightly less. Other than power and packing, manpower cost will be slightly lesser. And also the administrative cost would be lesser. And the margins would be slightly better.



Mr. Suridh Deora

So right now your EBITDA margin is roughly 8-9% in the existing business. So at best will it be about 10% in Bright or will it be significantly more than that?

Mr. Madhu Sudhan Bhageria

It can be significantly more than that.

Mr. Suridh Deora

And I guess I am not understanding in the business if the deltas currently are in the region of Rs. 20 for semi-dull POY, in Bright I think it is only Rs. 1 or 2 more than that.

Mr. Madhu Sudhan Bhageria

Yes Rs. 2, but that comes directly to the bottom line. Because the expense of manufacturing and other things remains the same.

Mr. Suridh Deora

Correct. But even then your gross margin is at 10%. So if I take 20% out of that it is still 22%. All your other costs, your power fuel and all is 5%.

Mr. Madhu Sudhan Bhageria

But see my net profit is roughly let's say 4%. If I get another 2% it becomes 50% more. Because if I get 2% margin more that is going to get directly reflected in my gross profit. Rest everything will remain same.

Mr. Suridh Deora

Okay. Again my second question is what is your outlook for Deltas at the moment across the board considering there is no major capacity addition in the next 12-18 months?

Mr. Madhu Sudhan Bhageria

So margins should increase.

Mr. Suridh Deora

Deltas are already moving up?

Mr. Madhu Sudhan Bhageria

Yeah they have started moving up.

Mr. Suridh Deora

And what could be the disruptor for this trend to continue?



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Mr. Madhu Sudhan Bhageria

Disrupting is only two factors. One is new capacity coming into India and China putting up more capacity. These are the only two things. That's it.

Mr. Suridh Deora

And in India as far as your understanding is, you don't see anyone else going up to capacity in the next 12-18 months.

Mr. Madhu Sudhan Bhageria

Yeah, I don't see that.

Mr. Suridh Deora

And Chinese capacity if they do come online we have protection against imports.

Mr. Madhu Sudhan Bhageria

Yes, as far as Indian market is concerned, we have protection against imports. But now as I told you India is also exporting a good volume. So there we can say it is some competition. Because of that some pressure can come in the local market.

Mr. Suridh Deora

So the impact of China in global markets can reduce the prices domestically as well.

Mr. Madhu Sudhan Bhageria

Of course, if you are not able to export you would like to sell it in India and then, that can create some pressure.

Mr. Suridh Deora

I see. Okay.

Mr. Madhu Sudhan Bhageria

Although I don't see any new big capacities coming in China. Of course small capacities keep coming here and there.

Mr. Suridh Deora

So if demand in China declines for some reason then the Chinese capacity would be excess capacity for the global market.

Mr. Madhu Sudhan Bhageria

Right. The demand goes down, yes of course. But we don't see any such thing happening. Now worldwide demand is going up and today the world production is roughly 40 million tonnes of filament yarn. So if it goes by 3.5 to 4% that means another 2 million tonnes.



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Mr. Suridh Deora

Right. Okay. That's helpful. I'll come back in the queue if there are any more questions. Thank you.

Mr. Madhu Sudhan Bhageria

Thank you.

Moderator

Thank you. Before we take the next question we would like to remind participants that you may press * and 1 to ask a question. We take the next question from the line of Sridhar Reddy a private investor. Please go ahead.

Mr. Sridhar Reddy

Hi. Good morning sir. Am I audible?

Mr. Madhu Sudhan Bhageria

Yes you are audible.

Mr. Sridhar Reddy

Yeah. I think you said that there will be 2% tax which is payable when you export or when you sell in other states. So is that the same when you buy raw materials from other states?

Mr. Madhu Sudhan Bhageria

Yeah, it is the same but that the raw material suppliers absorb.

Mr. Sridhar Reddy

I didn't get that sir.

Mr. Madhu Sudhan Bhageria

Supposing I am buying from – like I buy from Indian Oil in Panipat, they charge 2% CST but they adjust it in their pricing. So I get it at the same price if I buy from Gujarat or Panipat.

Mr. Sridhar Reddy

Okay.

Mr. Madhu Sudhan Bhageria

To absorb that cost.



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Mr. Sridhar Reddy

So my next question is on the raw material. So can you give me some information about the raw material pricing like PTA and MEG in the last quarter how they have moved?

Mr. Madhu Sudhan Bhageria

See last quarter PTA and MEG prices have declined a little bit.

Mr. Sridhar Reddy

Oh even the MEG prices?

Mr. Madhu Sudhan Bhageria

Even the MEG prices have declined slightly.

Mr. Sridhar Reddy

Okay sir that's all what I have. Thank you.

Moderator

Thank you. A reminder to the participants, anyone wishing to ask a question may please press * and 1. We will take the next question from the line of Mohit Bansal from Ajinkya MPL. Please go ahead.

Mr. Mohit Bansal

Hello?

Mr. Madhu Sudhan Bhageria

Yeah Hi Mohit.

Mr. Mohit Bansal

Yes sir. Sir on the raw material front I believe Reliance capacities are going to come online. Any idea on that sir?

Mr. Madhu Sudhan Bhageria

Reliance PTA capacity is already online. MEG capacity is expected in somewhere in July and August.

Mr. Mohit Bansal

Okay. So would that help in terms of some savings in cost?

Mr. Madhu Sudhan Bhageria

It should help. I don't know how they'll price it. But yes it should help somewhat because it is just next door to us.

Mr. Mohit Bansal

Okay so transportation margins...



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Mr. Madhu Sudhan Bhageria

Yeah they will be producing in Jamnagar but their distribution centre they are putting up in Dahej. So from Jamnagar they will bring it in ships to Dahej and store it and then, from there, distribute.

Mr. Mohit Bansal

Okay. And what kind of in terms of tonnes how much do we consume MEG?

Mr. Madhu Sudhan Bhageria

MEG is roughly 330 kgs per tonne.

Mr. Mohit Bansal

No, no, in terms of total volumes how much do we consume?

Mr. Madhu Sudhan Bhageria

Today we are consuming roughly 5,000 tonnes per month.

Mr. Mohit Bansal

Per month. Okay 60,000. Okay. Alright sir. So can you give a rough estimate of how much savings can be done annually if Reliance starts the distribution from Dahej? Approximate idea.

Mr. Madhu Sudhan Bhageria

Should be able to save at least Rs. 500 per tonne. Whatever volumes we buy from Reliance.

Mr. Mohit Bansal

Okay, alright sir. Thank you. Sir other question with GST coming up, you know we've got about 40% land bank free. I just wanted to ask you if can't the other capacity be shifted to this plant so that we save on opex? I mean that would be a....

Mr. Madhu Sudhan Bhageria

There's a huge cost of shifting....

Mr. Mohit Bansal

Sorry sir?

Mr. Madhu Sudhan Bhageria

There's a huge cost of shifting the machines which are already installed in Dadra. That's what you are saying?

Mr. Mohit Bansal

Yeah. I am saying because now because of GST it will be a single market. That land bank maybe monetised and there can be some advantage in terms of...



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Mr. Madhu Sudhan Bhageria

There will be huge investment needed and I don't think that what advantage will be only transportation cost which will save. And also the electricity cost in Dahej, Dadra is quite less compared to Gujarat. So that gets more than nullified with the transportation cost we incur on transporting....

Mr. Mohit Bansal

Okay. Alright. I was just thinking whether that made sense. Sir the last question would be in the last quarter concall we had said that we had raised some – we had raised the Tuff bills to the government. I just wanted an update on what is the status on that.

Mr. Madhu Sudhan Bhageria

That is not paid as yet and we haven't taken any account of that in our profit and loss as of now.

Mr. Mohit Bansal

No, no which is okay. But then we had started claiming it...

Mr. Madhu Sudhan Bhageria

Yeah we had started claiming it. As soon as the funds get released everything is cleared, we will get our money. When the textile ministry gets funds, we will get our money immediately .

Mr. Mohit Bansal

Okay, okay, alright sir. That's it from my side. Thank you.

Moderator

Thank you. Before we take the next question we would like to remind participants that you may press * and 1 to ask a question. The next question is from the line of Kalpesh Parekh from Prabhudas Lilladher. Please go ahead.

Mr. Kalpesh Parekh

Yeah hi. Thank you for giving me this opportunity. Sir a couple of questions...

Mr. Kalpesh Parekh

Okay. Sir just wanted to get a pulse on what – since we have already expanded our capacity on FDY and DTY front, how has been the demand scenario post our expansion? How has been like what type of demand outlook we are visualising for these two segments particularly?



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Mr. Madhu Sudhan Bhageria

DTY is doing quite well since we commenced production. Only barring a few months because of demonetisation we had a problem. If we take out that the DTY demand has gone up and the margins are also increasing. Because we have become – India as such has become quite competitive in DTY compared to China. DTY wants a little bit of more labour. China the labour costs are quite high as compared to India. Almost 3 times.

Mr. Kalpesh Parekh

Okay.

Mr. Madhu Sudhan Bhageria

We are quite competitive compared to China in DTY. That's why you see 50% of the DTY production we are exporting as of now.

Mr. Kalpesh Parekh

Okay.

Mr. Madhu Sudhan Bhageria

And any export that we are doing is not at disadvantage to the price in India. We always try to get something better than Indian prices or similar. Then only we do it.

Mr. Kalpesh Parekh

So in this case we compete with whom basically or any local player do we compete with?

Mr. Madhu Sudhan Bhageria

Yeah local there are quite a few players who compete with each other. Like Wellknown is there, Bhilosa is there, Reliance is there. There are quite a few.

Mr. Kalpesh Parekh

So in terms of pricing wise and all those things are we better off than...

Mr. Kalpesh Parekh

Yeah. So in terms of pricing wise can we expect basically – we would be better off than our competition like Wellknown or Bhilosa or something?

Mr. Madhu Sudhan Bhageria

Well, I don't know about their costing. But more or less everybody is at a similar level.



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Mr. Kalpesh Parekh

Okay, okay.

Mr. Madhu Sudhan Bhageria

It is just your relations with the customers or whatever you can get a better price. Even for half a percent or quarter percent you can get the deal. It's a quick close competitive market.

Mr. Kalpesh Parekh

Okay. And in terms of Bright I think what you mentioned in the cost, that probably we would be starting our thing by February 2018.

Mr. Madhu Sudhan Bhageria

Right.

Mr. Kalpesh Parekh

So we do we have any such demand outlook for next year? Because I think February 2018 means almost it will come into play somewhere in next year as well. Next year only. So what type of demand outlook we are visualising for this space?

Mr. Madhu Sudhan Bhageria

Overall filament yarn is growing more than 8 to 9% year on year basis. So I am assuming that Bright should also grow.

Mr. Kalpesh Parekh

Okay.

Mr. Madhu Sudhan Bhageria

And the new uses of Bright yarn coming, Bright yarn is also replacing some of the silk and artificial silk because of being cheaper. So even in sportswear and other places, Bright polyester yarn is being used quite a bit. They are the cheapest yarn available. Polyester is the cheapest yarn available now.

Mr. Kalpesh Parekh

Okay.

Mr. Madhu Sudhan Bhageria

Demand is increasing and there is export potential in Bright also.



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Mr. Kalpesh Parekh

So in terms of margin if I am segregating I think Bright would be on the higher side and thereafter probably DTY and thereafter chips.

Mr. Madhu Sudhan Bhageria

Yeah. In Bright also you make POY, FDY and DTY. But all these three products made out of Bright get you slightly better margins than if you make it from semi dull

Mr. Kalpesh Parekh

Polyester POY or polyester FDY.

Mr. Madhu Sudhan Bhageria

Yes.

Mr. Kalpesh Parekh

Okay. And sir what are our capex plans for this fiscal? I think you mentioned on the call that no major capex. But any specific capex do we have in this year?

Mr. Madhu Sudhan Bhageria

We have this capex of 343 crores for this Bright.

Mr. Kalpesh Parekh

Okay. And how is the financial arrangement done for this capex?

Mr. Madhu Sudhan Bhageria

We are taking roughly a loan of 280 crores is the debt component. And 63.5 is our internal accruals.

Mr. Kalpesh Parekh

Okay so financial closure for this 280 crores is done already?

Mr. Madhu Sudhan Bhageria

That's already done.

Mr. Kalpesh Parekh

Okay.

Mr. Madhu Sudhan Bhageria

We have also had our one disbursement also before that.



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Mr. Kalpesh Parekh

Okay. And sir what would be our average cost of funds or the debts whatever we are having total?

Mr. Madhu Sudhan Bhageria

See average cost out of these 175 crores is from a German Bank at 1.1% over Euribor plus insurance cost which comes to around 2%.

Mr. Kalpesh Parekh

Okay.

Mr. Madhu Sudhan Bhageria

And Indian banks we have got around 12%, 105 crores. I don't know what the average would be.

Mr. Kalpesh Parekh

Okay. So blended should be somewhere around 8-9% type of levels?

Mr. Madhu Sudhan Bhageria

I would say less. 2 and 12 is 14 and because the bigger loan is at 2% it should be around 6% or 5%.

Mr. Kalpesh Parekh

Okay, okay fair enough. Good sir, that's all from my side. Thank you very much.

Moderator

Thank you. A reminder to the participants, anyone wishing to ask a question may please press * and 1. We take the next question from the line of Mohit Bansal from Ajinkya MPL. Please go ahead.

Mr. Mohit Bansal

Yeah sir. Sir on the Euro loan when is it likely to get disbursed?

Mr. Madhu Sudhan Bhageria

It is likely to get disbursed from end of August till I think November. Whenever the machines will get despatched.

Mr. Mohit Bansal

Okay.

Mr. Madhu Sudhan Bhageria

It will get disbursed to the supplier as and when they despatch the machines.

Mr. Mohit Bansal

Okay. And despatch date is September.



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Mr. Madhu Sudhan Bhageria

First despatch is starting from August.

Mr. Mohit Bansal

Okay.

Mr. Madhu Sudhan Bhageria

And then I think the last despatch is around end of October or something like that.

Mr. Mohit Bansal

Okay alright sir. That's it from my side. Thanks a lot.

Moderator

Thank you. A reminder to the participants, anyone wishing to ask a question may please press * and 1. We will take the next question from the line of Suraj Deora from Mentor Capital. Please go ahead.

Mr. Suridh Deora

Hi just a couple of follow up questions. Firstly could you help me with the current prices on per kg basis for chips, POY, DTY and FDY for semi-dull as well as for Bright?

Mr. Madhu Sudhan Bhageria

Chips price for semi-dull as of now is roughly Rs. 61 for semi-dull and Rs. 62 for Bright.

Mr. Suridh Deora

Okay.

Mr. Madhu Sudhan Bhageria

And for POY let's take a particular denier like 250 because there are different denier.

Mr. Suridh Deora

Correct.

Mr. Madhu Sudhan Bhageria

So the price in Surat for 250 denier for semi-dull today is around Rs. 87 including taxes.

Mr. Suridh Deora

Right.

Mr. Madhu Sudhan Bhageria

And for the Bright it is around Rs. 91.



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Mr. Suridh Deora

Okay.

Mr. Madhu Sudhan Bhageria

And FDY for 50 denier the price should be around Rs. 111 for semi-dull and Rs. 113 for Bright. I am talking about one particular denier. But it gives you an idea about the....

Mr. Suridh Deora

And for textured?

Mr. Madhu Sudhan Bhageria

Textured also there is a similar difference of Rs. 4 to 5, depending on denier.

Mr. Suridh Deora

Okay. And I assume that these are your average realisation for whatever. So for 87 you mentioned 230 denier. Can I assume that it is roughly your average realisation for everything you're selling in POY?

Mr. Madhu Sudhan Bhageria

Yeah you can definitely assume that

Mr. Suridh Deora

Okay. And if I understand correctly the raw material cost for Bright is slightly less because you all don't use TiO₂. So more or less the incremental Rs. 2 that you are earning is coming to the bottom line.

Mr. Madhu Sudhan Bhageria

Yeah it goes to the bottom line. It's slightly less but then we add some barium sulphate. So it is more or less similar. There may be some 10, 15, 20% difference.

Mr. Suridh Deora

Okay so basically 2% incremental revenue here, 2 to 3% on an average incremental revenue comes to your gross margins. So gross margins goes from 20% to 22% for this project.

Mr. Madhu Sudhan Bhageria

Yeah but in the manufacturing scene at Bright you run at lower speed. So the productivity compared to semi-dull is 2-3% less per thread line. And down gradation is slightly more. So that should give you a disadvantage of let's say 25 paisa per kg or something like that.

Mr. Suridh Deora

So roughly the gross margin is the same. So the 20paisa gross margin....



Mr. Madhu Sudhan Bhageria

Yeah, yeah, more or less whatever I am saying similar or maybe 50% less gets transferred to the – in POY and FDY maybe you can assume a 25 to 50 paisa of the cost in manufacturing because of what I told you the lower productivity and little bit of down gradation.

Mr. Suridh Deora

So the gross margin will remain around 20 – if it remains around 20% and from the other...

Mr. Madhu Sudhan Bhageria

I think definitely slightly more than 2% you can assume more than the semi-dull.

Mr. Suridh Deora

But these numbers you are saying assuming current deltas. This is not assuming deltas will expand.

Mr. Madhu Sudhan Bhageria

No, no I am talking about current deltas. We tend to expand our...

Mr. Suridh Deora

No you never know. So assuming current delta is 20% and then below that if I remember correctly from the previous channel report other costs includes power, fuels, spares and so on. That is a variable cost. So that 5% cost will be applicable here as well. So even this gross margin is 20-21% or 22%, you still have to reduce that 5% for your power fuel and so on. About 17% is the margin that you get from here. Assuming there's not incremental fixed cost on employee or any other overheads....

Mr. Madhu Sudhan Bhageria

There will be a fixed cost. For employees it will increase. We do have to employ but at the lower level.

Mr. Suridh Deora

Right. So it normally adds much. It will not be commensurate.

Mr. Madhu Sudhan Bhageria

Yeah it will not be proportionate.

Mr. Suridh Deora

So basically 15 – so 21 minus 5, so about 15% is realistic in the incremental turnover from Bright.

Mr. Madhu Sudhan Bhageria



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Yeah, yeah it will be slightly more than whatever we are getting now. I have not calculated. You are talking about the percentage. I am not...

Mr. Suridh Deora

Okay, okay fine. Fair enough. Okay the other question I had was I didn't really catch what you were mentioning right now about TUFF. For how it applies to the current business as well as for the expansion.

Mr. Madhu Sudhan Bhageria

See in current business whatever drawn texturizing machines investment we have done, we will get a 5% interest subsidy from the centre. Qualified amount which is around 65 crores. And it will get reduced every year by the repayment, actual repayment in this case. And in from state you also get a 5% subsidy. But there they assume the repayment of EMI like every month it will be reduced by you can say total amount divided by 60 because of 5 years they give you.

Mr. Suridh Deora

Sorry sir this 5% subsidy is on a loan amount that you have taken for the investment into the DTY project.

Mr. Madhu Sudhan Bhageria

Correct.

Mr. Suridh Deora

What is the total amount of the loan?

Mr. Madhu Sudhan Bhageria

Not on the total amount. They only give on the machinery component.

Mr. Suridh Deora

Okay, correct, correct.

Mr. Madhu Sudhan Bhageria

Not on the building and...

Mr. Suridh Deora

Yeah, yeah fair enough.

Mr. Madhu Sudhan Bhageria

In utilities they work it out. So like I told you 65 crores is the number which has been frozen by the centres. State is still in the process of freezing that number. It could be slightly lower.



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Mr. Suridh Deora

Sorry, 65 crores is the loan amount right?

Mr. Madhu Sudhan Bhageria

No, 65 crores is the amount on which they will provide subsidy.

Mr. Suridh Deora

So 5% of interest subsidy on 65 crores of loan from the centre.

Mr. Madhu Sudhan Bhageria

Right. From centre. And state could be 60 or it could be 62 or 58. I don't know. They are still finalising that number.

Mr. Suridh Deora

So basically 5% interest subsidy on 65 crores from centre and 5% subsidy on 60 crores from state.

Mr. Madhu Sudhan Bhageria

Right.

Mr. Suridh Deora

And then what...

Mr. Madhu Sudhan Bhageria

It will get reduced every quarter by the repayment.

Mr. Suridh Deora

So how does that work exactly in terms of cash flow? You pay the higher amount up front and then you claim...

Mr. Madhu Sudhan Bhageria

Yeah then they file the claim to the textile ministry. And then as soon as their funds get released they pay up.

Mr. Suridh Deora

So in your books of accounts you are providing the entire interest amount. And when you receive it back it comes in other income.

Mr. Madhu Sudhan Bhageria

Yeah it will not come in other income. It will reduce the interest income in that particular quarter.

Mr. Suridh Deora

Okay so for now we provided the entire amount.



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Mr. Madhu Sudhan Bhageria

Yeah.

Mr. Suridh Deora

Interest cost basically going forward should reduce.

Mr. Madhu Sudhan Bhageria

Right.

Mr. Suridh Deora

The net interest cost. Okay and what will it be for the new expansion of Bright?

Mr. Madhu Sudhan Bhageria

Bright they have a scheme in Gujarat that if you put up a new investment then whatever is the outgo on state VAT or state GST, so they will refund you 70% of that whatever you pay.

Mr. Suridh Deora

Okay. 70 Okay. And this is for how many years?

Mr. Madhu Sudhan Bhageria

This is for 10 years and this is subject to 70% of my investment which gets qualified. So there's a cap on that of 70%.

Mr. Suridh Deora

Okay.

Mr. Madhu Sudhan Bhageria

Supposing I am doing an investment of 300 crores. So I can get maximum 210 crores if 21 crores every year is the cap. And the other cap is whatever I pay to them only 70% of that they will refund. So both the caps will be replaced. And this is area specific. For Dahej this is the scheme. For other areas in Gujarat it could be a little higher or lower.

Mr. Suridh Deora

Okay so I think I missed one point. You said your investment is 340 crores in this new project...

Mr. Madhu Sudhan Bhageria

Yeah I will just give you an example. Supposing it's 300 crores. So whatever 343 is in this, land is not qualifying. We are not buying any land. Building and machinery both get qualified in this.

Mr. Suridh Deora

Right.



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Mr. Madhu Sudhan Bhageria

Maybe preoperative and other such expenses might not get qualified.

Mr. Suridh Deora

Okay. So on 300 crores of investment, 70% of that, so 210, roughly 200 crores. On the sale generated from that value you will be saving GST.

Mr. Madhu Sudhan Bhageria

No. Whatever we generate out of the production from those facilities, and then we have to pay either VAT or state GST. 70% of the actual deposit amount will be refunded. But some gets offset by your input cost. You are buying the input, there is a VAT on that.

Mr. Suridh Deora

Yes.

Mr. Madhu Sudhan Bhageria

And you are selling there is a VAT on that. So only the differential amount you are depositing. So out of that differential amount they will give you 70% of it back.

Mr. Suridh Deora

Ah okay I see.

Mr. Madhu Sudhan Bhageria

Same will apply when GST comes so whatever will be differential state GST will deposit. 70% of that they will give us back. With a cap of 21 crores per year.

Mr. Suridh Deora

So basically if I think about it in terms of absolute numbers, if that probably generates 700 to 800 crores of sale, then depending on what proportion that is sold in Gujarat, 70% of that amount, the tax on that amount will be refunded back to you.

Mr. Madhu Sudhan Bhageria

Yeah but then lot of like almost 75 or 80% is raw material cost. That will already attract vat. So only on the value addition portion whatever you are depositing, out of that only we will get a refund.

Mr. Suridh Deora

Okay got it. So actually – okay fine, I think I got it. I will come back in queue if I have some **questions**.



Mr. Madhu Sudhan Bhageria

It is not put into any of our projections. As and when we get it that will be additional revenue.

Mr. Suridh Deora

Right, right, right. Understood. Okay thank you.

Moderator

Thank you. A reminder to the participants. Anyone wishing to ask a question may please press * and 1. We will take the next question from the line of Sushil Choksi from Indus Equity. Please go ahead.

Mr. Sushil Choksi

Hi. I missed some of your replies in the opening statement because the line was not connected well. So I maybe repetitive in some questions. Can you tell us what is your estimate in next 2-3 years post GST the total yarn industry capacity in India likely to be post expansion and total demand in India?

Mr. Madhu Sudhan Bhageria

I couldn't get your question please.

Mr. Sushil Choksi

Total capacity of India and total demand of India by 2020. Estimate based on whoever is putting up whatever expansion.

Mr. Madhu Sudhan Bhageria

The filament yarn today I think capacity is roughly 3.5 million. And it is growing around 8 to 9% CAGR. That should bring us close to I think around 5 million.

Mr. Sushil Choksi

So that will move to 5 million. And where do you estimate your capacity in 2-3 years post expansion?

Mr. Madhu Sudhan Bhageria

My capacity I expect to maybe touch around half a million by 2020.

Mr. Sushil Choksi

Where are we today as of in the current month?

Mr. Madhu Sudhan Bhageria

As of now we are 200 and by next financial year we should be close to 300.

Mr. Sushil Choksi

How are we distributing our raw material purchase between Reliance, IOC, Mitsubishi and others?



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Mr. Madhu Sudhan Bhageria

Mainly we are buying PTA from Reliance. But we are buying some quantity from IOC. Nothing from Mitsubishi. And we are importing also for the volumes we are exporting. We are entitled to import duty free. So that volumes we are importing. Which is around 25%. 20 to 25%. And around 10% from IOC and balance from Reliance. In PTA. MEG is mainly import around 85% and only 10% from IOC. That is 90% is import.

Mr. Sushil Choksi

Are you importing from Middle East that is Sabik and others? Or any specific...

Mr. Madhu Sudhan Bhageria

We are importing from Meglobal. We are buying from Mitsubishi and Shell.

Mr. Sushil Choksi

Can you differentiate yourself what would be our value added products maybe 12 months down the line compared to a normal commodity product in PFY? What percentage of our sales will be in tonnage and value wise? Percentage at 70:30 or 80:20 or whatever.

Mr. Madhu Sudhan Bhageria

I would say around 25% to 75%. I mean it depends on what you consider as a value added product.

Mr. Sushil Choksi

Based on your own estimate and presentation I am saying.

Mr. Madhu Sudhan Bhageria

Then I would say around 75% is the value added and 25% is non-value added. Not less so much value added.

Mr. Sushil Choksi

75% value added?

Mr. Madhu Sudhan Bhageria

75% value added.

Mr. Sushil Choksi

And what would be our differences between value added and commodity product in percentage terms of sales value?

Mr. Madhu Sudhan Bhageria

Sales value see when you make a value added you also have to incur more expenses on that.



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Mr. Sushil Choksi

Yeah I understand that.

Mr. Madhu Sudhan Bhageria

Margin wise it is going to be 1:2. I would rather go on that.

Mr. Sushil Choksi

So you would prefer more on value add products rather than commodity because of the competition.

Mr. Madhu Sudhan Bhageria

I would prefer which will give me more profit.

Mr. Sushil Choksi

Obviously every promoter will do that. But as of today we are tilted to...

Mr. Madhu Sudhan Bhageria

You will see market keeps on changing. Sometimes value added products you have to do too much and you don't get that kind of a – and if there is any shortage in commodity that gives you much more money than value added products. So you have to keep on changing with the dynamics of the market.

Mr. Sushil Choksi

How are you seeing polyester product outlook vis-à-vis cotton prices today?

Mr. Madhu Sudhan Bhageria

Cotton has no bearing on polyester prices at all. Cotton is totally a rich man's fabric. So whatever its prices move up and down has no bearing on polyester prices.

Mr. Sushil Choksi

So you are saying irrespective of cotton prices where they are, polyester will have no demand degrowth or growth.

Mr. Madhu Sudhan Bhageria

Polyester will keep growing. Whether cotton prices go up or down. They are way ahead of polyester. It is almost like 1:2 the pricing.

Mr. Sushil Choksi

No, no. I am aware of the price. But the scene on cotton is getting hotter. That is the reason I asked you that question.



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Mr. Madhu Sudhan Bhageria

No, that's what I am saying. If the cotton prices go down or up doesn't affect our demand. Our demand is totally different. The people who are using polyester would keep on using polyester. They are not affected if the cotton prices are going up or down. Because that is too costly a product for them to use.

Mr. Sushil Choksi

Your estimate is 8% of your – 8% industry growth is visible to you.

Mr. Madhu Sudhan Bhageria

That's minimum I expect. It could to be double digit.

Mr. Sushil Choksi

And raw material supply is more comfortable than even to grow...

Mr. Madhu Sudhan Bhageria

Raw material like PTA is already surplus in India. And one more plant of JBF is going to get commissioned in a couple of months. So PTA India would be surplus at least for 2 years or 3 years maybe. And MEG Reliance plant is coming. Although India will still be short, but Reliance capacity is coming of 0.75 million tonnes of MEG. And should be commissioned by July-August I think.

Mr. Sushil Choksi

Okay. And what do you see as your export volume vis-à-vis 10%-20% on a 1 year forward basis, total product?

Mr. Madhu Sudhan Bhageria

Like last quarter we did around 23%. So I assume as of now till our new expansion comes we should be around this percentage only.

Mr. Sushil Choksi

And what geographies do you export to?

Mr. Madhu Sudhan Bhageria

We are exporting to all over. I think I gave the list of my major customers which is in Korea, Brazil, Turkey, Egypt, Poland. They are the major countries where we export. Otherwise we are exporting to almost 28-30 countries.

Mr. Sushil Choksi

Thank you very much and all the best.

Mr. Madhu Sudhan Bhageria

Thank you.



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Moderator

Thank you. Reminder to the participants anyone wishing to ask a question may please press * and 1. We will take the next question from the line of Gaurav Jagani from Prabhudas Lilladher. Please go ahead.

Mr. Gaurav Jagani

Hi sir. Sir as we have been seeing that your exports have been steadily increasing now and they have touched like around 100 crores in Q4. So is there any impact of the currency appreciation right now?

Mr. Madhu Sudhan Bhageria

There is. But then we gained on the import side also no? Our imports are also quite a bit.

Mr. Gaurav Jagani

Okay.

Mr. Madhu Sudhan Bhageria

Overall it is beneficial if the currency appreciates.

Mr. Gaurav Jagani

Because I can see there is a steady increase in the export percentage of the overall contribution now.

Mr. Madhu Sudhan Bhageria

Right. But at a given time I am always negative on dollar front. So I have to pay more than what I have to receive.

Mr. Gaurav Jagani

Okay. And sir one more question on the mix, production mix front. So I have been seeing there is also an improvement in terms of the sales mix basically. So now it consists of approximately 40%. And the polyester yarn percentage has gone down. So does that also help you in going forward improving your margins, overall margins?

Mr. Madhu Sudhan Bhageria

Definitely it helps.

Mr. Gaurav Jagani

So sir like what are we seeing, a steady state margin 2 years from now post our Bright capacity comes in?

Mr. Madhu Sudhan Bhageria

I think whatever we have done in Q4 we should do slightly improvement every quarter on that depending on the market scenario. I feel we should be doing better off than that.

Mr. Gaurav Jagani

So I am slightly asking you from a longer term say 2 years from now. So that is like after....



Mr. Madhu Sudhan Bhageria

Yeah till 2 years I don't see any major capacity coming in. So the margin should remain intact and should improve only.

Mr. Gaurav Jagani

Okay, okay. So any number that you would like to hazard?

Mr. Madhu Sudhan Bhageria

No I cannot give you a number although I have numbers but I cannot.

Mr. Gaurav Jagani

Okay. And sir on the debt front, so right now like we are having say 468 crores of debt and we might be taking more say 280 crores for this. So what would be our peak debt going ahead?

Mr. Madhu Sudhan Bhageria

Around 700.

Mr. Gaurav Jagani

700 crores. And sir like so the repayment starts from when for these loans?

Mr. Madhu Sudhan Bhageria

280 will be, repayment would start I think after FY '19 or end of FY '19. So it's one year from commencement of production. So assuming if I commence in fourth quarter then of course in the next year fourth quarter my repayments will start. And they are on a ballooning side. So initially they will be less and then....

Mr. Gaurav Jagani

Okay. So any fixed plan as to how are we going to bring down the debt going ahead?

Mr. Madhu Sudhan Bhageria

From our internal accrual only. We will be having very good internal accrual from FY '19 we expect a very good Ebidta and cash profits and so on. So repayments are very less in FY '19 for the new loans which we don't need to pay anything. So the old loans we can return quite a bit.

Mr. Gaurav Jagani

And sir last year on the tax front so like this quarter we had to pay certain tax. So going ahead what would be the tax rate that we can work ahead with?



Mr. Madhu Sudhan Bhageria

See as of the actual tax outgoing it will be MAT only. See what happened in FY '16 is that FDY production got commissioned in Q4. So whatever was the depreciation allowance special allowance given by the government, the government put only in the Q4. That is why you see a negative tax on that. This year we were putting the investment in every quarter. So we just distributed whatever benefit was there on each quarter. That is what. So the deferred tax is there on other three quarters in FY '16 and all of a sudden in Q4 then the benefit derived from the full year has been put. So that is why it is a negative tax.

Mr. Gaurav Jagani

Okay, okay.

Mr. Madhu Sudhan Bhageria

This year we have provided that in all the quarters. So that is the thing.

Mr. Gaurav Jagani

Okay thank you sir. That is all from my side.

Mr. Madhu Sudhan Bhageria

Thank you.

Moderator

Thank you. Before we take the next question we would like to remind the participants that you may press * and 1 to ask a question. The next question is from the line of Sudhir Deora from Mentor Capital. Please go ahead.

Mr. Suridh Deora

Yeah what is the current installed capacity in India on a tonnes per day basis?

Mr. Madhu Sudhan Bhageria

Roughly 10,000 tonnes.

Mr. Suridh Deora

And what is the net addition in the next 18 months after taking into account closures that you are hearing of?

Mr. Madhu Sudhan Bhageria

I don't see it more than 500-600 tonnes per day.

Mr. Suridh Deora

And this when you say 500-600 that includes the 300 that will be coming up from our own Bright facilities.



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Mr. Madhu Sudhan Bhageria

See we expect around 600-700 and maybe 200 will go out of business. Something like that.

Mr. Suridh Deora

Okay so plus 700, minus 200. And the demand growth is 7-8%. So if...

Mr. Madhu Sudhan Bhageria

The urge is more than 8%.

Mr. Suridh Deora

And industry wise utilisation levels would be at...

Mr. Madhu Sudhan Bhageria

Industry wise utilisation are quite high around 90% plus.

Mr. Suridh Deora

Okay, okay.

Mr. Madhu Sudhan Bhageria

For the yarn capacity. The chips capacity utilisation is quite low. Because that is also not a very value added product. In our case also we are not utilising it in full chips capacity.

Mr. Suridh Deora

You are not hearing of people changing the downstream lines using the chips to do more yarn or any more value added products?

Mr. Madhu Sudhan Bhageria

No. the people who ask, so we have chips capacity so we will be putting in more production of yarn to utilise that chips capacity. That is why this all 700 which I am talking about is coming to utilise their additional chips capacity which everybody has.

Mr. Suridh Deora

So no new CPs are coming up.

Mr. Madhu Sudhan Bhageria

No new CPs are coming up. See our CP is also like an extension of our existing CP.

Mr. Suridh Deora

Correct. So no one's putting up CP. They are just...



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Mr. Madhu Sudhan Bhageria

Nobody is putting up any grass root CP as of now. Nobody has announced.

Mr. Suridh Deora

Okay fine. And you are not hearing of any other big players doing the same thing that you are doing at least in terms of major conversion from chips to yarn like as a Reliance or someone like that which will depress the prices.

Mr. Madhu Sudhan Bhageria

No, no, no. I don't think Reliance intends to grow more into yarn now.

Mr. Suridh Deora

Okay. Alright. Thank you.

Moderator

Thank you.

Thank you very much sir. Ladies and gentlemen that was the last question. I would now like to hand the conference over to the management for their closing comments.

Mr. Madhu Sudhan Bhageria

Thank you everyone. It was nice talking to all of you. And hopefully we should meet again in other Q1, FY '18 quarter. Thanks for joining us.

Moderator

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