



# FILATEX INDIA LIMITED

CIN No.L17119DN1990PLC000091

FIL/SE/2019-20/38  
18<sup>th</sup> November, 2019

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**Sub.: Transcript of Conference Call on 13<sup>th</sup> November 2019**

Dear Sir,

This is in continuation to our letter dated 7<sup>th</sup> November 2019 on the Q2FY20 Earnings Conference Call on 13<sup>th</sup> November 2019. 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

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## “Filatex India Limited Q2 FY20 Earnings Conference Call”

**November 13, 2019**



**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:** **MR. AMIT ZADE - EMKAY GLOBAL**

**Moderator:** Ladies and gentlemen, good day and welcome to the Filatex India Limited Q2 FY20 Earnings Conference Call hosted by Emkay Global Financial Services. We have with us today Mr. Madhu Sudhan Bhageria – Chairman & Managing Director. As a reminder, all participant lines will be in listen-only mode and there will be an opportunity for you to ask questions after the end of today’s presentation. Should you need assistance during the conference call, please signal an 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. Amit Zade of Emkay Global. Thank you and over to you, sir!

**Amit Zade:** Good afternoon everyone. I would like to welcome the management of Filatex India and thank them for giving us this opportunity. I would now handover the call to the management for opening remarks. Over to you, sir!

**Madhu Sudhan Bhageria:** Thank you, Amit. Good afternoon and a warm welcome to all of you attending this earning call for the quarter ended on September 2019. A preview you would have gone through the presentation which has been uploaded on our website as well on the stock exchanges. I have with me Mr. Chauhan - our Executive Director and Ms. Stuti Bhageria – Senior Vice President (Corporate Strategy).

Let me begin with expressing profound regret for the long gap. The last conference call was on May 09, 2018. The regrets are unconditional though there have been several reasons. Let me show you that from now onwards we will treat the Earning Call as sacrosanct and ensured that there will be no gap in future. The financial performance data for this gap period had been regularly uploaded as per quarterly schedules on website and stock exchanges.

Coming back to the current scenario in overall perspective, Indian economy is facing a slowdown since last 6 quarters. Print media and TV news channels are readdressing the issues expressing serious concern. According to IM report, 90% of the world economies are experiencing slowdown due to various reasons like geopolitical tension, trade imbalances leading to trade conflicts and cyclic nature of economy. In India the slowdown effect is highly visible across most of the industry segment. Unemployment and job loss numbers are rising. Growth in domestic consumption is down, the agriculture and unorganized sectors are deeply affected, banks and NBFCs are facing unprecedented NPAs have insufficient capital adequacy ratio. The tremors of demonetization and implementation of GST are still being felt.

Government of India is addressing these issues on war footing, steps are being taken to revive demand consumption and investment. We all hope that in a couple of quarters the growth of economy will be on the upswing.

Every company has responded to the slowdown in a unique strategic manner. In the textile segment, the upheaval is quiet strong and is reflected in the numbers especially exports which continue to decline. Trade imbalances between US and China has effected domestic market in India as it has led to a lot of dumping of Chinese yarn fabrics and apparels. Duty free excess of

governments from Bangladesh and Sri Lanka have paved the way path for Chinese fabrics entering in domestic market at zero duty. Polyester industry continues to suffer on account of inverted GST structure, higher rate of 18% on raw materials, 12% on finished product like yarn and going forward 5% on fabrics. Indian polyester industry is at a distinct cost disadvantage in global competitiveness on account of antidumping duty on key raw materials PTA. MMF Industry Association and users of PTA are vigorously representing and following up with the government authorities to remove the structural nominees which are hampering the growth of synthetic fiber.

During the current financial year, we have managed to keep our capacity utilization and more than 90% for yarn. Though the margins are squeezed, we have registered growth in volume. A drop in topline is not a cause of worry as prices have been following every quarter due to drop in raw material prices. The value addition also has a small decline because of weak demand.

With regard to financials of Q2 of FY20 notwithstanding the slowdown in the market. The company has reported revenues of 680 crores as compared to 718 crores in the corresponding quarter of previous year. EBITDA for the quarter stood at 52.3 crores as compared to 64.8 crores in Q2 of FY19. The net profit of Q2 of FY20 stands at 61.84 crores as compared to 20.25 crores of Q2 FY19. The spurt in profit is on account of statutory compliances associated by change in taxation laws.

On a half yearly basis the revenue for FY20 for H1 was Rs. 1,377 crores as compared to 1,422 crores for H1 FY19. EBITDA for H1 FY20 is Rs. 104 crores as against Rs. 122 crores for H1 FY19. Profit after tax for H1 2020 is Rs. 81.87 crores as compared to 40.39 crores for H1 FY19. As per our assessment the prospects of polyester filament business are bright. As per international organization discovered natural fibers initiative DNFI in the last decade 2008 to 2018 the growth in consumption of all fibers increased from 75.1 million metric tonnes to 111 million metric tonnes which is an increase of 36.20 million metric tonnes. Out of this growth, synthetic fibers contributed 34.55 million metric tonnes and natural fibers only 1.65 million metric tonnes.

In percentage term the growth share of synthetic fibers, the share in the growth of synthetic fiber is 95%. It is pertinent to note that in MMF segment polyester constitute the biggest share around 78% which translate to a growth of 26.95 million tonnes over last decades. In polyester fiber the share of filament is 77% and that of staple fiber is 23%. Thus, polyester filament has grown in volume by 20.75 million metric tonnes in this decade at a CAGR of 6.8%.

Polyester yarns are integral part of Indian textile industry. Future growth of textile in India can only come growth in polyester. We understand that Government of India has constituted a committee to examine the structural anomalies in the growth path of synthetic fibers. Our focus continues to be on increasing margins through cost reduction and value added products. Going forward in the value chain, we had identified high energy cost at Dahej plant as a key component for cost reduction. We have made good progress on setting up a captive power plant which will

reduce energy cost little more than 2.5 per unit. Annual impact of this reduction upon completion of this project will be in the magnitude of Rs. 50 crores annually. We are looking at new products like home textiles which have shown a steady growth over the last decade. A lean team with some external guidance and support is mapping the market and straight practices both in domestic and international market.

Thank you for your patient hearing. I will look forward for questions.

**Moderator:** Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. First question is from the line of Chetan Kumar, as an individual investor. Please go ahead.

**Chetan Kumar:** Just one question on this, what is your percentage of this MEG is used in this year with respect to PTA producing this yarn and what is the raw material cost for this MEG? And what is the kind of impact that will happen on your final product?

**Madhu Sudhan Bhageria:** I could not get your question. You are asking the cost of raw materials?

**Chetan Kumar:** Yes, my question is like what is your percentage of MEG is used in your product?

**Madhu Sudhan Bhageria:** MEG we used roughly 0.34 kgs for 1 kg of yarn.

**Chetan Kumar:** So, that is roughly 30%, right?

**Madhu Sudhan Bhageria:** No, actually the total we use is around 0.86 kg is PTA and 0.34 kg is MEG. So, that is around 1.2 kg becomes 1 kg of polyester and 0.2 comes out as water in the reaction.

**Chetan Kumar:** And what is the price of this MEG?

**Madhu Sudhan Bhageria:** It keeps on fluctuating, you see.

**Chetan Kumar:** So, that is what, I want the number?

**Madhu Sudhan Bhageria:** The Q2 the price of MEG on an average was around Rs. 39.

**Chetan Kumar:** 39 per kg, right?

**Madhu Sudhan Bhageria:** Yes, this per kg.

**Moderator:** Thank you. The next question is from the line of Disha Mehta, as an individual investor. Please go ahead.

**Disha Mehta:** Sir, I just wanted to know the, what would be the volume number you are expecting for FY20 annually?

**Madhu Sudhan Bhageria:** Total volume?

**Disha Mehta:** Yes.

**Madhu Sudhan Bhageria:** Total volume we have already done 148,000 tons in H1 and H2 we expect to do around another 160-165 tons. So, it will be like 315,000 tonnes to 320,000 tonnes.

**Disha Mehta:** And just second question is on the debt part. So, can you give you us, give me the detail for the current debt position and how much of it is from the foreign currency?

**Madhu Sudhan Bhageria:** Yes, at the end of September 2019 our total long term debt is 516 crores out of that 252 crores is external borrowings and 71 crores is for working capital and around 53 crores is unsecured loans.

**Moderator:** Thank you. The next question is from the line of Arjun Sengar from Nippon India Mutual Fund. Please go ahead.

**Arjun Sengar:** I missed out on your initial remarks but just wanted to get your commentary on the profitability the spread that we have seen over the last 3 to 4 months and what is the outlook for the synthetic yarns?

**Madhu Sudhan Bhageria:** See, last 3 to 4 months have not been very good because the demand has been lower. The reason overall there is a slowdown in the country also the prices of our raw materials have been falling continuously. Otherwise, now it looks like the prices are getting bottomed out and going forward we feel that our margin should improve, not significantly in Q3 but I think significantly in Q4.

**Arjun Sengar:** And this would be led by increase in your selling prices or the raw material prices?

**Madhu Sudhan Bhageria:** Yes, it will be led by increase in the selling prices because if the raw material prices are not falling then the demand also is a little bit good. Right now the consumers do not keep much inventory, so they work on very thin inventory. So, if the prices get stabilize then their inventory position and the operating rates increases.

**Arjun Sengar:** And on this inverted duty structure what is the latest position?

**Madhu Sudhan Bhageria:** Government is looking into it. I hope in the next GST Council meeting this should be addressed because we have had several meetings with the industries and have recognized this because they do not get any revenue extra out of that. Basically there is a refund mechanism which gives us the duty back but you see a lot of funds get blocked in the this process. And it is quite cumbersome some and especially even 1,000 weavers and knitters have to do this. There are lot of weavers and knitters of the fabric who have to go for refunds. Everybody is not so financially sound to block funds because the fund blockage is anywhere from 6 to 8 months.

**Arjun Sengar:** So, currently what are the rates?

**Madhu Sudhan Bhageria:** Currently, 18% on raw material 12% on yarns and 5% on fabric and all the inverted duty everybody gets refund on the raw material portion. But the duty paid on capital goods and services get blocked. There is no refund mechanism to get refund of capital goods and services.

**Arjun Sengar:** And the yarn grade was reduce from 18%, right, sometime may 6-7 months back?

**Madhu Sudhan Bhageria:** No, that was reduced in when it was put I think 17 so doing that October-November it was reduced. That time only October-November only it got reduced and from that time till now the anomaly is continuing.

**Arjun Sengar:** And you had commented that the exports of textiles there have been very weak. So, for us what that means is that the final product which is apparel that export is suffering then whole value chain ...

**Madhu Sudhan Bhageria:** See, yarn exports are not that badly hit but the exports of fabric would hit the local demand for the yarn.

**Arjun Sengar:** And this fabric primarily goes into countries like China, Bangladesh?

**Madhu Sudhan Bhageria:** No.

**Arjun Sengar:** Our exports?

**Madhu Sudhan Bhageria:** No, fabric is either consume in India or garments are made and then its exported China and Bangladesh are big exporters, so they do not import from India.

**Arjun Sengar:** So, you mean the export of garments has suffered and fabric is one on that?

**Madhu Sudhan Bhageria:** Yes, garment also and fabrics are such which are exported.

**Moderator:** Thank you. The next question is from the line Stuti Menon from ASIL. Please go ahead.

**Stuti Menon:** Could you please share with us the delta or the difference between the selling prices in the raw material price you have seen in the last quarter? And if you have any suggestions on that going into the next quarter?

**Madhu Sudhan Bhageria:** See, the selling price on average has been, for this quarter, around Rs. 87 per kg where the raw material price has been around Rs. 60.50.

**Stuti Menon:** And this is both PTA MEG?

**Madhu Sudhan Bhageria:** Yes, this is PTA MEG and the selling price. So, I have just taken PTA MEG as raw material there are other also small raw material. But I have taken only PTA MEG in this Rs. 60 because

their price is keep varying, rest of the raw material prices do not vary that much and the percentage in the total is very insignificant maybe 1% or 2% constitute in the total 2%-3%.

**Stuti Menon:** So, when you say Rs. 60 per kg is that considering that we would 0.86 of PTA and 0.34of MEG...

**Madhu Sudhan Bhageria:** Yes, so we do is 0.86 of PTA and 0.34 of MEG and then come to a melt price. So, that we take it as a so that has been Rs. 60.50 paisa for this quarter.

**Stuti Menon:** And do you have any projections going forward?

**Madhu Sudhan Bhageria:** Going forward, raw material I look to be quite stable now maybe the see if the currency depreciate because this price is derived from international pricing and then the currency rate. So, if the currency depreciate this can move a little bit. But now it looks to be bottoming out even crude is quite stable at 60, looks to be quite on the bottom side now. The margin for the even raw material people are quite squeezed at the moment.

**Moderator:** Thank you. The next question is from the line of Prasun Pande, as an individual investor. Please go ahead.

**Prasun Pande:** Sir, I would like to know we are paying MAT right now?

**Madhu Sudhan Bhageria:** Yes.

**Prasun Pande:** So, the reason for paying MAT is because of the discontinued depreciation difference or is it because of the subsidies. What is the main reason actually that we are still in MAT? And when do you think that we will start using up the MAT credit?

**Madhu Sudhan Bhageria:** MAT credit usage would start from next year.

**Prasun Pande:** Yes, immediately from next year.

**Madhu Sudhan Bhageria:** Yes, so next year it will start and may be for the next 2 or 3 years within 3 years we will exhaust all the MAT and then we will enter into the new regime.

**Prasun Pande:** And the reason for being MAT right now is because of accelerated depreciation, I think?

**Madhu Sudhan Bhageria:** Yes, because of accelerated depreciation difference between income tax and the company law is quite significant. That is why you see additional profit in the company because now you have to provide that at the new rate, the deferred tax.

**Prasun Pande:** So, that has been adjusted there?



**Madhu Sudhan Bhageria:** So, from 34.9% to 25 point some percent. So that difference gets reversed. So, that is why a jump in profits. But MAT we now continued to pay at 15% plus 12% surcharge, not at the old rate of 18.5. So, that is the cash flow advantage of around 4%.

**Moderator:** Thank you. The next question is from the line of Viraj Rai, as an individual investor. Please go ahead.

**Viraj Rai:** This is Viraj. And sir just wanted to know sir, what is your CAPEX plan for FY21? And second thing, how are going to fund this? Are you going to fund this for internal cash or are you going to take any debt for this CAPEX?

**Madhu Sudhan Bhageria:** It will be a combination of both. So, we have a CAPEX plan for putting up our captive power plant which will mostly be done in FY21 a small portion will also be done in this current financial year. So, the total CAPEX is around 165 crores and that will be a blend of equity and debt, equity means internal accruals.

**Viraj Rai:** Both equity and debt.

**Madhu Sudhan Bhageria:** Yes.

**Moderator:** Thank you. So, next question is from the line of Rishi Sharma, as an individual investor. Please go ahead.

**Rishi Sharma:** Can you provide details regarding your major peers and also how is the competition?

**Madhu Sudhan Bhageria:** See, competition is there because demand is low but major peers are Reliance where you cannot detect the numbers for polyester filament yarns separately. And the other 2-3 big ones they are unlisted. So, we do not have their numbers as of now.

**Rishi Sharma:** And EBITDA margins seem to be under pressure in this quarter?

**Madhu Sudhan Bhageria:** Yes, see margins under pressure is automatically it get reflected in the EBITDA margin.

**Rishi Sharma:** So, is this expected to continue for the remaining part of the year?

**Madhu Sudhan Bhageria:** No, Q4 I expect definitely much better EBITDA margin. Q3 also there should be slight improvement from Q2.

**Moderator:** Thank you. We have a question from the line of Swetha Kotari, as an individual investor. Please go ahead, Swetha.

**Swetha Kotari:** My question is, can you share EBITDA per kg for DTY, FDY and overall?

**Madhu Sudhan Bhageria:** No, I do not have separately for DTY, FDY. Overall I can give you. Overall it has been Rs. 6.87 per kg in this quarter.

**Swetha Kotari:** And can you please throw light on your future plans and like for a high-values fabrics?

**Madhu Sudhan Bhageria:** No, fabrics is, I mean it will take some time we are just studying the market and then anything which will be visible only in FY22 not even in FY21 there will be hardly any visibility of fabric.

**Swetha Kotari:** And if we have any higher outlook?

**Madhu Sudhan Bhageria:** Higher?

**Swetha Kotari:** I mean valuation outlook higher margins in that?

**Madhu Sudhan Bhageria:** In our existing products?

**Swetha Kotari:** Yes.

**Madhu Sudhan Bhageria:** Yes, we are in the process of putting texturizing machines also. So, our POY we have commence production for the new plant. So, end of FY21 we will have all those machines in place. So, that will definitely improve our margins.

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

**Madhu Sudhan Bhageria:** I thank all the participants for sparing their time and joining us in our earning conference calls, looking forward to be with you in the next quarter. Thank you.

**Moderator:** Thank you very much. Ladies and gentlemen, on behalf of Emkay Global Financial Services, that concludes this conference. Thank you for joining us and you may now disconnect your lines.