



FILATEX INDIA LIMITED

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National Stock Exchange of India Limited
Listing Department
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Mumbai-400 051
Security Symbol: **FILATEX**

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Listing Department
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Security Code: **526227**

Sub.: Transcript of Conference Call on 31st August 2020

Dear Sir,

This is in continuation to our letter No. FIL/SE/2020-21/16 dated 28th August, 2020 on the Q1FY21 Earnings Conference Call on 31st August, 2020. 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

Ramesh

COMPANY SECRETARY

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“Filatex India Limited Q1 FY-21 Earnings Conference Call”

August 31, 2020



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

MODERATOR: MR. MANISH MODI – KIMENG SECURITIES INDIA PRIVATE LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the Filatex India Limited Q1 FY21 Earnings Conference Call hosted by KimEng Securities India Private Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Manish Modi from KimEng Securities. Thank you and over to you Mr. Modi.

Manish Modi: Thank you Janise. Hello everyone. On behalf of Maybank, welcome to the first quarter result con-call of Filatex India. I have with me the management of Filatex, Mr. Bhageria. Over to you sir.

Madhu Sudhan Bhageria: Thank you. Good day and a warm welcome to all of you attending this earning call for the first quarter of FY21. I presume you would have gone through the presentation which has been uploaded on our website as well as on the stock exchanges. I have with me Mr. Chauhan – our Executive Director and Ms. Stuti Bhageria – Senior Vice President, Corporate Strategy. This certainly is a bit late to be sharing with you the performance for the period April to June 2020. However this is as real time as it could be. The cause of delay is as you all know well, COVID-19 which is still causing havoc in all aspects of daily lives, jobs, businesses across all segments except a few who are engaged in maintaining essential services. The sudden announcement of lockdown on 24th March at four hours' notice has caused great distress to businesses. The lockdown was extended hoping that spread of disease will be contained. That was not to be. The disease continued to spread causing disruption of businesses, jobs, income and daily lives. It won't be an exaggeration to say the pandemic and efforts to contain it spreading across the country has crippled the economy. The government realizing the acute hardship due to loss of income of common man had to announce partial lifting of lockdown. This announcement allowed us to evaluate restarting our plants at partial capacity.

It can be argued that the lowest point of the economy will come after and not before the number of COVID cases have peaked. Yet in the interim, as we keep passing weeks and months, the economic stress continues to build because the economy is working well below its potential. That essentially translates to individuals earning less and as a result holding back consumption.

Let me emphatically express that after partial lifting of national lockdown it was a tough call when to restart the operations. The downstream markets were closed or under lockdown, shortage of labor and the onus to make all provisions for hygiene, social distancing and sanitation presented a dismal picture. Despite the gloomy scenario our team wanted to go ahead. I may not be wrong to say that amongst large manufacturers we were the first one to start the plants. We restarted partial operations in our Dahej plant from 21st May and this was communicated to both the stock exchanges. However continuation of lockdown at state level, containment zones across different areas, suspension of public transport and sealing of interstate borders presented major challenges. We strongly believe that there is no unique strategy

in tough time except hard work and perseverance. Our primary focus during these difficult times was on survival. The first up was to ensure the well-being of employees and their families. Returning to work was the second major step which involved work from home as well as flexible timings for those whose presence was necessary for the few hours. Strict hygiene regulations have been implemented at the workplace along with social distancing measures.

In overall perspective, the first quarter financially has not been good. In reality it's a misnomer to call it a quarter, it is just about a month that too at partial capacity. In terms of numbers, we were able to produce only 19% of our production, that to mainly chips and POY, compared to that we had achieved in Q4 FY20. In this quarter, we have not been able to cover our costs. That is why the EBITDA is negative at around 6 crores. As part of survival strategy we had to sell the material at low prices which was essentially to revive the inertia of downstream markets and end users. It would be meaningless to compare Q1 data on year-on-year or Q-on-Q basis.

However, as we have made an operating loss it would be pertinent to explain the reasons. Not only was the capacity utilization low, there was also less volumes of value-added products. At the time of restart the demand for FDY was very low, in texturizing the volumes are low as this is a labor-intensive operation and we could not mobilize enough workers. Another factor that has contributed to the overall loss is stock loss. The raw material prices, which have a linkage to crude prices, fell significantly from Rs. 53.50 to Rs. 42.50, a drop of Rs 11 per kg. Thus, the stock sold was at lower value and stock in hand is valued at current prices resulting in further loss.

In spite of dismal a quarter we continued our efforts to get manpower back from the respective villages, districts so that the production volume should be increased. Notwithstanding the recent unprecedented setback we remain bullish about our future prospects. The massive disruption of the economy on account of pandemic COVID is across all countries. The comparative strength of the Indian industry is intact. We believe Indian polyester industry has a potential to meet increasing domestic as well as international demand. Government of India has finally realized the importance of man-made fibers as part of textile chain and has taken favorable decision. The disadvantage in global competitiveness on account of anti-dumping duty on key raw material PTA is no more.

However the polyester industry continues to suffer on account of inverted GST structure; higher rate of 18% on the raw materials, 12% on finished products like yarn and going forward 5% fabric and garments. We understand that Government of India is in the process of correcting the inverted duty structure. This will ease out the financial stress of the polyester manufacturer at no loss of revenue for the government.

We have also added more texturizing capacity during the last quarter Q4 FY20 and there was one lot that got held up for commissioning due to sudden lockdown. All the texturizing machines are now commissioned, and we have declared commercial production as of today.

We remain focused on increasing margins not just through cost reduction but also by adding new filaments with niche characteristics. Trial run of some of the new filaments have slowed down due to shortage of labor at the user's end.

As mentioned earlier we are in the process of setting up 30 MW captive power plant. Its implementation was also stalled by COVID lockdown due to force majeure by all suppliers, the engineering and fabrication work was stopped. We are now targeting commissioning by April 2021. Still a very aggressive timeline which is difficult but not impossible. The annual impact of savings in energy costs upon completion of the project will be in the magnitude of Rs. 45 to 50 crores annually.

We had initiated some research work on recycling of polyester waste in all forms. This is based on de-polymerization of polyester and removing colors, additives etc. before re-polymerization. Our pilot plant trial results are encouraging. The demand for recycled polyester will be interesting as there is greater awareness about sustainability. All reputed international brands have shown a preference as well as readiness to pay a substantial price premium for recycled products.

Survival is followed by revival; prices are firming up, customer are back in production, downstream industry also is seeing revival of demand. The operating rates for our industry as a whole are above 80% and downstream industry has also caught up and are also around 80%. I'm pleased to inform that our capacity utilization rates have been increasing continuously since June. We have as of today achieved full capacity utilization of our yarn capacity. The demand as well as margins have improved significantly in last fortnight. We are sure that polyester industry will do well in times to come. In second quarter we should break even or maybe achieve small profit. Thank you for your attentive listening. I'm sure there will be some questions. I request the moderator to start the Q&A session.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question-answer session. The first question is from the line of Hetal Shah from Berman India.

Hetal Shah: Last quarter our finance cost was around 22 crores and this quarter it is around 17, what is the reason, any repayment?

Madhu Sudhan Bhageria: No, the reason basically is we have some Euro loans, so in the Quarter 4, there was a currency loss more than in Q1 of this year. That is why it is there, this is the main reason.

Hetal Shah: What was the last quarter?

Madhu Sudhan Bhageria: Last quarter means Q4 FY20?

Hetal Shah: Yes.

Madhu Sudhan Bhageria: Q4 FY20 it was 22 crores that included around 7 to 8 crores of currency loss. This quarter it is 17 crores, so it includes around 4.5 crores of currency loss. So the only difference between the quarters is that the currency loss has been lower in this quarter compared to the last quarter.

Moderator: The next question is from the line of Basant Pandey, Individual Investor.

Basant Pandey: I would like to ask you how were our cash flows during this last quarter, have we even able to meet our cash flows properly?

Madhu Sudhan Bhageria: Yes, cash flow wise there was no issue because if you will see in this Q1, our cash flow is roughly around 20 crores because in the 17 crores of interest, this 4.5 crores is notional because that just increases your debt by 4.5 crores. You don't have to repay that. And also we had taken 20 crores of working capital extra loan which was offered as 10% of the CC limits by the banks so that we don't have any stress on the working capital. That's how we met the cash flows of Quarter 1.

Basant Pandey: Must have been very difficult but good to hear that you have managed it.

Madhu Sudhan Bhageria: Yes, cash flow wise we have no issues, even our suppliers are extending more credit. So right now I can tell you our utilization of cash credit limits is negligible. There is no problem of cash flow in the company.

Basant Pandey: Another small question, what is the total amount of outstanding in the euro loans right now?

Madhu Sudhan Bhageria: It will be approximately around 32 million.

Basant Pandey: €32 million?

Madhu Sudhan Bhageria: Yes.

Moderator: The next question is from the line of Kanika Pandit from Kaptify.

Participant: This is Kanika's colleague. I wanted to know what kind of revenue can we extract from the newly commissioned DTY facility, the announcement that you made today and what will be the benefit of that on margins?

Madhu Sudhan Bhageria: The DTY is basically further processing of the POY. Therefore, on the topline there will not be much impact, but the value of the product will increase and definitely on the bottom line we will have impact of that.

Participant: In the longer term what kind of margin improvement can we expect in this?

Madhu Sudhan Bhageria: Already we have commissioned a part of these machines, only a few machines like we were to put 38 machines, out of that only 10-11 machines were yet to be commissioned which have

been commissioned now. About the margins I cannot say much about but we will definitely have a good second half of this year because this is a very small part of the expansion which has come in this quarter. So, it will definitely have an impact but not a very significant impact on the margins.

Participant: You are setting up the power plant, by when it could be operational and again what will be the levers in terms of margin benefits on account of that?

Madhu Sudhan Bhageria: So that we are expecting it to be operational by April '21 and that will save us a power cost annually of anywhere from 45 crores up to 50 crores. So our power bill will go down, so that savings will add more to the EBITDA and bottom line by around 50 crores.

Participant: In percentage terms how much would that be?

Madhu Sudhan Bhageria: Percentage terms? Percentage top line is very difficult because of the...

Participant: No, saving in the power cost in percentage terms.

Madhu Sudhan Bhageria: It would be around 2% you can say, anything from 1.8% to 2%.

Participant: 2% for revenue?

Madhu Sudhan Bhageria: Yes 2% of the total revenue assuming the prices remained in this bracket.

Participant: I believe you just said in your previous comments that you are now at 90% of capacity utilization.

Madhu Sudhan Bhageria: As of today, 31st of August, all our yarn capacities are now running full, only chips where it's more of a demand and supply and the margins are very low in the chips business, so there the utilization is low because the demand is not much. Otherwise yarn which is the main bread-and-butter of the company, there we have now achieved full production. Last two machines which were not working have also started working from today. So everything is operating as of today.

Participant: So in the last 15 days or 1 month which are the sectors where you're witnessing this demand uptake primarily, apparels, home furnishing what kind of...

Madhu Sudhan Bhageria: No, home furnishing started earlier that is in Ludhiana and Panipat area but we were still facing lack of demand in Surat and Maharashtra like Bhiwandi and all these areas which have also started picking up from last fortnight. So that has really perked up the demand and once they are starting the unit they need more material initially to load the machines and to run and to have some inventory. So demand has really picked up and there is an improvement in the margins also. Main thing is the margin; the margins also have moved up quite a bit in the last fortnight.

Participant: How was the receivable scenario now because since units are just starting up what kind of credit cycles are you offering?

Madhu Sudhan Bhageria: There is no stress on the receivable cycle. Our receivable cycle for the local is around 15-20 days and export of course it depends whether it's LC or otherwise, so export cycle is normally around 45 days. And I can tell you during the COVID times whatever payments were there, we have received all the payments which were due. So there is no payment which has been defaulted or anything. There are a few payments which are coming a little slow but they are coming. It's not that they are not paying at all and that number is very-very small.

Participant: What are you seeing from the Chinese market, are we seeing any extra orders in international business coming up because China there are lot of issues happening globally? Lot of countries are wanting not to trade with them, are you seeing any business requirement in the international export market?

Madhu Sudhan Bhageria: That is not reflecting in the benefit as of now because some of the countries which are the buyers in export market, like Brazil is a big buyer, they were also facing lot of pandemic issues but now they are coming out of it, so market is reviving. But there are one or two good things that have happened locally - now the import of fabric from China and garments from Bangladesh and Sri Lanka will go down because the Government of India has come with the regulation that even if they have a free trade agreement with these countries they have certain restrictions they have put about value additions before the things can be imported as zero duty. So that will definitely increase the domestic demand because the imports will be less and people are hesitant to import from China in India per se. One reason is obvious because of patriotic reason, second is they feel that any time Government of India can come up with some additional duty on the Chinese products. So nobody wants to take a chance and buy and also people are not able to travel, so in fabric and garments people want to see before ordering most of the time. So all those factors will definitely create lot of global demand. Also there was a fire in one of our major producers of yarn just before the pandemic started. So almost 5% to 6% of the capacity has been wiped out and I don't foresee that it can come back before 1.5-2 years because the delivery of those machines is also very long.

Participant: 5% to 7% of India capacity?

Madhu Sudhan Bhageria: 5% to 6% of the Indian capacity was wiped out in that fire. It was a massive fire.

Participant: Which means you're talking of almost 600 to 700 tons per day?

Madhu Sudhan Bhageria: Yes, it was more than 700 tons per day capacity which got wiped out. The total building also collapsed and all the machines got destroyed.

Participant: But then how much time would it take for this to come back and of course I mean existing players would benefit?

Madhu Sudhan Bhageria: It will take at least 1.5 years because the delivery of these machines, I know for sure, is not ordered also because in these pandemic times their insurance claim and everything will take lot of time and the delivery itself is from 14 to 16 months for those machines and then once you get them then to install another 2-3 months. So I think it will be almost end of '22 before the facility would start or maybe second of '22.

Participant: Would this help us in the export business as well?

Madhu Sudhan Bhageria: Not much in export but definitely the overall market conditions will improve because the supply-side is getting restrained and demand is there. So I think the margin should improve because of that locally as well as some impact on international because for international it's too small a number.

Participant: What is the benefit that we would be getting and other players because of the removal of ADD on PTA?

Madhu Sudhan Bhageria: That is for everybody in India, so in Indian market now we are more competitive compared to anybody who can import. Normally the prices are pegged against landed import prices. So that will help us in increasing our margins from let's say raw material to finish, the margin was Rs. 30 a kg before the anti-dumping that you put. So now it can be around Rs. 31.50 or 32 because the landed price of the finished product will remain same but the raw material prices will go down. So that will give us an ease and now it is easy to export because now we don't necessarily need to import also. You can buy locally and take duty drawback and export. So overall it should give us a benefit of at least Rs. 1.5 in the margins in the long run once the demand is coming back to the normal.

Participant: You mean 1.5%?

Madhu Sudhan Bhageria: Yes if you say percent or rupee, it's similar because the product is around Rs. 80-90 a kg.

Moderator: The next question is from the line of Kamlesh Agarwal, Individual Investor.

Kamlesh Agarwal: I have a question regarding the demand what you're seeing today, is it because of the pent-up demand or the market is getting normal and how do you see this in the coming quarter?

Madhu Sudhan Bhageria: It's very difficult to predict what kind of demand is coming up so soon but Yes, I think it's a normal demand which is coming up like for winters now people are getting ready because fabrics you have to make much before the winters come in or the season I would say. But now people are coming back to normal life this is what I feel because export also we are seeing some demand coming. So I feel this is a normal demand because this is not coming in a big way all of a sudden. People have started their operations downstream so that's why the demand has picked up. Also now till November and December, normally the demand is good till February every year. We have normally April to June is a little slack months demand otherwise demand increases from August and remains steady till February-March.

Kamlesh Agarwal: So with the current demand which is at—you are saying—operating at 100%, so can we expect the current quarter to be seen as a pre-COVID quarter?

Madhu Sudhan Bhageria: No, the current quarter will not be same because July we didn't have much production, then August was not 100%, only September will have 100%. So that is why I'm saying that we should be out of the red and we should have a black quarter, I mean we should have a slight profit or something like that. So that itself will be a big change because in these 90 days the overall production will not be more than 50-55 days of production if I take it on a full production basis. As of today I am saying it's 100%, so next 30 days it will be 100 but last 60 days you can say would not be 100%. That could be around 30 or 35 days, so overall we will get around 60 days of production and the margins have also just improved. Previously we were producing and selling but the margins were quite low.

Kamlesh Agarwal: And these margins which you are saying improved are sustainable?

Madhu Sudhan Bhageria: Yes, they are sustainable. They have not still come to the pre-COVID levels but they are coming very close to the pre-COVID level, so almost like 85%- 90% of the pre-COVID levels. so by the month end we should be at around pre-COVID level hopefully and then you have some bookings always with 15-20 days of booking lagging is there, so that will go at the old prices only. Whatever we have been booking from last one week has the higher prices. So the full impact will come in the third quarter, second quarter we'll be able to break even. From the 38 crores loss in the last quarter if we even break even that's a significant improvement.

Moderator: The next question is from the line of Harish Siath, Individual Investor.

Harish Siath: Today we have said that some capacity has started. So I just wanted to reconfirm the Slide #14 on the presentation it shows 3,83,000 our capacity net. Is it inclusive of that or that will be added to this?

Madhu Sudhan Bhageria: No. 3,83,000 is my total capacity. Out of that the chips capacity is not running at full capacity, the chips might be running around...

Harish Siath: This new capacity what you've started commercial production...

Madhu Sudhan Bhageria: Yes, all is included in that.

Harish Siath: In 3,83,000 it is included?

Madhu Sudhan Bhageria: 3,83,000 includes everything.

Harish Siath: That means more of the POY will be consumed into DTYs now

Madhu Sudhan Bhageria: POY will get more into DTY now.

Harish Siath: Secondly we are talking about industries, what is our roughly market share in the industry in India?

Madhu Sudhan Bhageria: It could be about 7.5%-8% of the industry.

Harish Siath: You referred it to earlier question that some of the capacity got the fire. This was in India or somewhere else?

Madhu Sudhan Bhageria: India only.

Harish Siath: What part of the country?

Madhu Sudhan Bhageria: It's a plant in Silvassa.

Harish Siath: One more thing, do you foresee any more competition coming because of as you know the Reliance is taking over the Alok industries and they were running it with 30% capacity and now it's expected that because of Reliance support they may increase their capacity. So do we see any competition from the Alok and will it have any impact on our production and sales?

Madhu Sudhan Bhageria: Alok's polyester capacity was running at around 60% and they would be ramping it up to 100%. So in that sense I think the filament yarn per se they were not running fiber also and they have some fiber so in filament yarn their capacity utilization was close to 70%-75%. They will be bringing in 200-250 tons of more POY and DTY. And that should not be a problem.

Harish Siath: And just to compare the size between Alok. You are bigger than Alok or Alok is bigger than you?

Madhu Sudhan Bhageria: Filament wise we are almost similar. They have fiber also 210 tons that is extra. If we talk about filament yarn we are almost similar. Now maybe 2%-4% they could be higher or such. Not more.

Harish Siath: What is the CAPEX for the power plant?

Madhu Sudhan Bhageria: Power plant the CAPEX is 165 crores.

Harish Siath: Internal accrual or would be funded also?

Madhu Sudhan Bhageria: It's both internal accrual and funded. So around 50 crores are internal accrual and 115 crores is loans from the banks.

Harish Siath: Talking about the market segment, which segment the market we are more predominant? Like say in west, in western area of Gujarat or Maharashtra. Where are we having more customers?

Madhu Sudhan Bhageria: All the segments. See we cannot afford to be not present in any segment. We are present in all the segments.

- Moderator:** The next question is from the line of Basant Pandey, Individual Investor.
- Basant Pandey:** You've been mentioning about the new filament that we are doing R&D on. Can you please elaborate on that a bit and are they niche product in technical textiles or what?
- Madhu Sudhan Bhageria:** No, they are for fabrics only and there is a write up on the website about each product. They are different products with shrinkage or some other feels which they give it the yarn. 4-5 products which we have brought up recently but we could not properly market that due to the lockdown caused by COVID. It will need lot of marketing effort and right now the downstream people are also not interested in the new products. Right now they think they want to bring their production on line first. But yes, we have developed quite a bit of new products which we feel in the future should give us better margins.
- Basant Pandey:** I have seen them on your website called COTSLON and FLEXI-FIL.
- Madhu Sudhan Bhageria:** So all those things. We have a team to develop and market these products.
- Basant Pandey:** So the development is basically complete.
- Madhu Sudhan Bhageria:** These are normal like to help us in doing that.
- Basant Pandey:** So the R&D and development of those products is completed right?
- Madhu Sudhan Bhageria:** Yes. We have people who are just dedicatedly doing that job.
- Basant Pandey:** And these products would definitely fetch a premium and add to your volumes?
- Madhu Sudhan Bhageria:** Of course. As and when the people start using them they will definitely give a premium. Of course the volumes will be less initially but yes of course. You have to make a beginning and then.
- Moderator:** The next question is from the line of Kanika Pandit from Kaptify.
- Participant:** Just a follow up question. Could you tell us a bit more about your pilot plant on the recycled business?
- Madhu Sudhan Bhageria:** There's a good demand for the recycled products and in India, there's only one company who's manufacturing, Polygenta, with the chemical process. Rest whatever the people are doing in India is making fiber through bottles, cleaning the bottles and just recycling them into fiber. So this is a different concept. We will be taking the polyester waste, melting it, de-polymerizing it and bringing it back to almost raw material stage, taking out all the impurity and then again doing the polymerization. So to do the R&D we have made a pilot small plant in Dahej. So there we will do the R&D and then see that we are successful with the system and then we want to patent that technology and then put up a plant to do that. So that trials are

going on. Of course for last 4-5 months nothing much could be done but again now it has restarted. So hopefully by the year end we should be at some conclusive stage for taking it forwarding to a bigger plant. So whatever trials have been done, are quite encouraging and it looks like we are in the right direction. And of course material balancing and then of course the power and heat balancing have to be done to see that it is economically viable. That is the R&D which we are doing. The whole plant, the small plant that we have built up is so though the things are setup in a smaller way but in a realistic way of what will happen in the bigger plant.

Participant: But what stage are we in? Is this pilot successful and we are now conceptualizing the next stage or we're still in the first?

Madhu Sudhan Bhageria: We're conceptualizing means the pilot is there but every time you do the trials then you feel like we should change this. So it's a slow process. Sometimes you have to make changes in the plant also something which you are doing first you want to do it later or like that. So small changes are to be done. And every time they do a few batches then they realize this is the problem and then try to find a solution to that problem. So it's like doing R&D but I'm sure we are quite near I mean to the final thing 90% we are able to achieve but last 5%-7% we need to do more R&D on that.

Participant: Are there any other companies globally who are doing this because when you are talking about patent you are talking about Indian patent or global patent?

Madhu Sudhan Bhageria: Of course we will do global patent also but then there are a lot of companies who are going into this but everybody is trying different ways to do it so I don't know what ways because nobody discloses as well. So everybody is trying to find a way and there are a lot of companies and there are lot of companies and they are investing a huge amount. I think IVL is spending 5 million or something, \$5 million for research. There are a few companies who are doing it already but there are very few companies and the demand for the product is quite high.

Participant: So does this kind of a product get better realizations in the market?

Madhu Sudhan Bhageria: Yes it gets substantially better margins so what I know of from Polygenta who's making this is supposing I am selling my product today at Rs. 80/kg, they are able to the sell the same product at Rs. 50 to Rs. 60 per kg premium.

Participant: And who are the buyers of this premium product exactly?

Madhu Sudhan Bhageria: These buyers are the people who are making garments and fabrics for the reputed brands who in their orders specify that you have to put so much of recycled material and then all this is certified. Like we will have to get a certification from agency GRS. They will certify the process and also each and every consignment which will sell, it will be certified by them and in return the fabric manufacture will have to get it certified and sell it to the garment manufacturer. It's a chain of certificates to ensure that this much of material has been made

through recycling and for that these brands are paying a premium. And because in Europe I think they have certain norms that by 2025 you have to have a minimum percentage of recycled fiber for sustainability in the fabrics for polyester.

Participant: So this product would typically also need approvals from the customers, or would it just need it from the fabric manufacturer?

Madhu Sudhan Bhageria: No it will start from the customer of the garment I mean the brands who are buying these garments, they will specify and then the whole chain will be doing this.

Participant: No since you are saying that in ordering....

Madhu Sudhan Bhageria: Supposing let's say I mean one company orders garments and they specify the fabric used should contain 30% of recycled material. Then as the fabric maker, I will have to look for the recycled yarn and put that yarn 30% in the fabric. So he is ready to pay a premium because for his fabric he gets a premium.

Participant: So then it becomes the fabric manufacturer's prerogative to ensure that he gets that, right? You don't need to go for approvals to let's say someone is making for a big brand, you don't have to go for approvals to that brand. You don't have to get the approvals from the fabric brands?

Madhu Sudhan Bhageria: We don't have to go for approvals but these days these brands would like to evaluate the whole chain to be sure that they are getting the right product. So maybe they will evaluate our production facility to see yes, we can do it and consistently provide a good product to them.

Participant: And wouldn't it make sense to kind of put this into a separate company probably like a subsidiary, considering that our tax benefits?

Madhu Sudhan Bhageria: Yes once we have a patent then we might make a separate entity, the own subsidiary of Filatex and then see what benefits the government can give, so all those things will come once the process is established.

Participant: And this will be within the same premises at Dahej?

Madhu Sudhan Bhageria: Not necessarily, both the options are available. Depends if we go up to, see there are two options, if we go up to the chip stage, we make only the chips recycled and then sell it to the yarn manufacturer that we can do within our premises but if we have to make our own yarn out of that then we might need a little bigger premises.

Participant: What is the spare, what is the total land and the spare land currently at Dahej?

Madhu Sudhan Bhageria: We have roughly around 65 acres of land in Dahej and the spare land actually to be utilized for production could be left is only 10 to 12 acres, around 45,000 to 50,000 square meters.

- Participant:** And how much more would we need any case we go for yarn making in this?
- Madhu Sudhan Bhageria:** I think we will need at least 20 acres because we would need a bigger size because in future if we want to expand then we don't want that put one location and then go to another location. So we will have to see that if we start with X at least we should have a land for going 2X or 3X in future.
- Participant:** So have we envisaged any CAPEX for this or you are still at the pilot stage?
- Madhu Sudhan Bhageria:** We have envisaged the CAPEX but see like I told you if we go up to the chip stage there is one CAPEX, if we go up to the yarn stage the CAPEX would be much-much more. So we are yet to decide because , after this, once international travel is allowed then we need to travel and talk to the buyers and see the facility what can be done. So it is too primitive a time to decide on all these things without being able to meet people and I think people are also not putting their mind on these things at the moment.
- Participant:** And how far is this I mean 6-12-18 months in terms of...?
- Madhu Sudhan Bhageria:** According to me maybe sometime by March end or maximum in the first quarter of next year we should be able to concretely complete this at the max.
- Participant:** Concretely complete the plan?
- Madhu Sudhan Bhageria:** Plans.
- Participant:** Which means the setup goes into next year?
- Madhu Sudhan Bhageria:** Of course, even the setup would take at least from 15 months to 18 months. It's not a, once you decide to do it putting up the facility, would take 15 to 18 months minimum.
- Moderator:** The next question is from the line of Bharat Chheda from ICICI Direct.
- Bharat Chheda:** Just had a question regarding the value-added products. So the value-added products like what is the current proportion of value-added products for us and what is our target to take it ahead and how that would impact our margins?
- Madhu Sudhan Bhageria:** Right now our value-added products are FDY and drawn textured yarn. So the breakup I think, they have almost like close to 68% of the overall capacity, 68% to maybe 70%. Right now we want to wait and see how this pandemic finishes and all so maybe in the fourth quarter will start planning to make it more value addition on the balanced products.
- Bharat Chheda:** And what is the realization difference between a basic product and a value-added if you could throw some light on that?

Madhu Sudhan Bhageria: Let's forget the chips part of it because chips is just like a basic raw material only. So POY to textured yarn there is a difference of roughly around Rs. 14-15 of the value addition and FDY of course is a directly value-added product which is a combination of POY and DTY price. So like in POY if the value addition is around from the raw material around 17-18 so textured would be around 32-33 and FDY itself is around 32-33 from the raw material.

Bharat Chheda: On the capacity front if we look at the current capacity then what kind of peak revenue with a stable realization that we can generate? I am speaking from an asset turnover perspective. So ideally we have been having an asset turnover close to 2 and more than that. So how do we see it going with the current capacity? What is the peak revenue that we could generate say by next year FY22? FY21 I am not considering.

Madhu Sudhan Bhageria: In our case the top line is a factor of the raw material prices in a big way. So at today's raw material prices I think the top line what we can achieve would be around 2700 crores at the full capacity. At pre-COVID raw material prices, we can achieve around 3200 crores.

Bharat Chheda: What is your long-term outlook on the margin like see some part would come obviously from the power plant and from the product's movement in the value chain do you see anything further coming up to that also?

Madhu Sudhan Bhageria: See without power plant also on these kind of prices today I see in the full-time we should get very close to around 10% EBITDA and power plant would be incremental to that.

Bharat Chheda: So that is 1.8% or 2% as you said so we could go closer to 12% with the combined effect of both?

Madhu Sudhan Bhageria: We could be closer to 12% combined EBITDA. So FY22 itself can see very close to that because only 1 month we will not be running the power plant. So FY22 itself can see very close to those numbers.

Moderator: Thank you. Ladies and gentlemen as there are no further questions, I would now like to hand the conference over to the management for their closing comments.

Madhu Sudhan Bhageria: I would like to thank all the participants for patiently listening to me and asking some very significant questions. So thank you and see you in the next con-call of Q2. Thanks.

Moderator: Thank you. On behalf of KimEng Securities India Private Limited we conclude today's conference. Thank you all for joining, you may now disconnect your lines.