



FILATEX INDIA LIMITED

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National Stock Exchange of India Limited
Listing Department
5th Floor, Exchange Plaza, C-1, Block-G,
Bandra-Kurla Complex, Bandra (E)
Mumbai-400 051
Security Symbol: **FILATEX**

BSE Limited
Listing Department
25th Floor, Pheroze Jeejeebhoy Towers
Dalal Street,
Mumbai - 400 001
Security Code: **526227**

Sub.: Transcript of Conference Call on 13th January 2021

Dear Sir,

This is in continuation to our letter No. FIL/SE/2020-21/41 dated 11th January, 2021 on the Q3FY21 Earnings Conference Call on 13th January, 2021. 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

Ramiz

COMPANY SECRETARY

Encl.: a/a

CORPORATE OFFICE

Bhageria House
43 Community Centre
New Friends Colony
New Delhi - 110025, India
P +91.11.26312503,26848633/44
F +91.11.26849915
E fildelhi@filatex.com

REGD. OFFICE & WORKS

S. No. 274 Demni Road
Dadra - 396193
U.T. of-Dadra & Nagar Haveli
India
P +91.260.2668343/8510
F +91.260.2668344
E fildadra@filatex.com

SURAT OFFICE

Bhageria House
Ring Road
Surat - 395002
India
P +91.261.4030000
F +91.261.2310796
E filsurat@filatex.com

MUMBAI OFFICE

321, Maker Chamber - V
Nariman Point
Mumbai - 400021
India
P +91.22.22026005/06
F +91.22.22026006
E filmumbai@filatex.com

Website: www.filatex.com



“Filatex India Limited Q3 FY-21 Earnings Conference
Call”

January 13, 2021



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

MODERATORS: **MR. BHARAT CHHODA – ICICI SECURITIES LIMITED**
MR. CHERAGH SIDHWA – ICICI SECURITIES LIMITED



Moderator: Ladies and gentlemen good day and welcome to the Q3 FY21 Earnings Conference Call of Filatex India Limited hosted by ICICI Securities 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 now hand the conference over to Mr. Bharat Chhoda from ICICI Securities Limited. Thank you and over to you sir.

Bharat Chhoda: Thanks, Rutuja. On behalf of ICICI securities let me welcome you all to the Q3 FY21 earnings call of Filatex India. From the management today we have Mr. Madhu Sudhan Bhageria – Chairman and Managing Director, Mr. Ashok Chauhan – Executive Director and Ms. Stuti Bhageria – Senior VP, Corporate Strategy. I now hand over the call to Mr. Madhu Sudhan Bhageria for his initial comments post which we'll open the floor for Q&A. Thank you and over to you sir.

Madhu Sudhan Bhageria: Thank you Bharat. Good evening and a warm welcome to all of you attending this earning call for the quarter ended December 2020. I presume you would have gone through the presentation, which has been uploaded on our website as well as on the stock exchanges. Joining me for this session are Mr. Chauhan – our Executive Director and Ms. Stuti Bhageria – Senior Vice President (Corporate Strategy).

Let me begin this address on an exuberant note, this quarter under review has been extraordinary. If Q1 was a setback then Q3 has been if I may say so a comeback and that too with a thump. The textile industry went through a very tough period from April to July. Following the measures to cope up with COVID-19 after a restart, it was expected to be a U shape recovery and I must admit it has been better and is more like V shape. This recovery is not just for us but for the whole textile sector. From July onward the downstream textile units started functioning again amidst scattered orders from domestic buyers. By Diwali most of the units got many orders across the country, not only were the domestic manufacturers able to exhaust the unsold inventory but also the entire textile chain especially in Ludhiana and Panipat later on in Ahmadabad and Surat experienced unprecedented business opportunities leading to firm demand for fibers and filaments.

Domestic textile units are getting extra export business as global brands are finding it risky to depend on supplier only from a single country due to the pandemic. China being the dominant supplier is obviously losing some part of its supply to India. The new situation has led to an advantageous position to many small units in India. This in turn has perked up the demand for yarns and fibers and likely to remain strong as even imports of fabrics from China have reduced substantially.

Before I go on further, let me go through the results of this quarter Q3 FY21. We have achieved a production volume of 85,200 metric tonnes as against 72,700 metric tonnes in Q2 FY21. However, in year-on-year comparison, it was 93,100 metric tonnes in Q3 FY20. But if



we talk about only yarn production, it was 85,800 metric tonnes in Q3 FY21, 67,700 in Q2 FY21 and 83,200 metric tonnes in Q3 FY20. This shows that our yarn production has been highest till now in Q3 FY21. We achieved sales volume of 86,500 metric tonnes in Q3 FY21 as against 75,200 in Q2 FY21 and 92,000 in Q3 FY20, around 95% of last year's figures. Similarly, if we will look at only yarn sales, it was 86,100 metric tonnes in Q3 FY21, 69,000 metric tonnes in Q2 FY21 and 83,500 metric tonnes in Q3 FY20.

The revenue from operations was 722 crores in this quarter as compared to 508 crores in Q2 FY21 and 728 crores in Q3 FY20. Our DTY capacity after commissioning in August 2020 has given us the expected benefit of its production. In our last address we have said "In the coming months we expect our EBITDA margins to improve further close to double digits". I'm pleased to inform that EBITDA for this quarter has been in double digit, at around 16.65%. While EBITDA as a percentage is more prevalent among the investors, it is appropriate to mention that in our type of industry, it should be seen on absolute number basis. The effect of stimulus through government policies for the textile industry in which polyester now plays a dominant part is getting visible. Abolition of anti-dumping duty on PTA has led to improved margins. Our global competitiveness has also improved.

On the export front though there are good number of inquiries, the opportunity is not fully cashed as there is still shortage of containers and freight rates continue to be high. Despite these constraints we managed to export 10,879 metric tonnes in this quarter against compared to 11, 841 in Q3 FY20. We strongly reaffirm our assessment that polyester will become the backbone of the resurgent Indian textile industry and we continue to maintain our buoyant stance for polyester business in the coming year. The government of India has realized the importance of textile industry in terms of job creations due to its innate nature. Textile business including apparels and garments is rather labor-intensive and skill sets are easily replicated to new entrants of workforce. Government at the highest level has also realized the importance of synthetic filament and fibers and its increasing role in global textile trade. The policies are being reviewed and modified to remove the hurdles for rapid growth. There's a long pending demand for correcting the inverted GST structure for polyester fibers. We remain optimistic that government will consider one GST rate for the complete textile chain, covering all natural and synthetic fibers, right from raw materials to the garment and other finished products. A uniformed GST rates across the whole value chain will accelerate the growth and mitigate working capital stress. This step will certainly boost the domestic production and consumption. Remission of Duties or Taxes on Export Products scheme, RoDTEP scheme is also going to be introduced soon. This scheme will be replacing MEIS which is not compliant to WTO norms. Government has also announced production link incentive in which garments and fabric are covered. These incentives will certainly add to improved financial performance of the textile sector. All such incentives in downstream textile chain will spur the demand of synthetic fibers and filaments.

The gap between Indian and Chinese manufacturing capacity is very large. China being around eight times the capacity in man-made fibers. If China is Numero-Uno and India is a distant number two, the third one is only at 20% to that of India. Due to the slow down in China due



to high labor cost and international sentiments, the prospects of synthetic filament in India are bright. Given the thrust of government policies and initiatives, it wouldn't be surprising to see Indian manufacturing capacity doubling up in the next 4 to 5 years.

We have commissioned 1.4 MW rooftop solar power plant. Our captive thermal power project of capacity 30 MW after facing delays due to the national lockdown is now back on track and the work is now going on in full swing. The fabrication and erection work is going on almost round the clock. We expect the commissioning of the project in April, 2021. Upon completion of the project will ensure that the plant gets stable power along with savings in energy costs of about Rs. 45 crores annually.

The vast increase in the generation of post-consumer PET-plastic waste as well as fast increasing pledges of brand owners around the world to include recycled content have resulted in a pressing need for efficient recycling processes. As mentioned in the previous con-call, we had initiated in-house research work on recycling of polyester waste in all forms. This process is based on the chemical depolymerization of polyester waste, removing color additives, catalyst, etc. before the polymerization. Our pilot plant trial results are encouraging enough to intensify our efforts for establishing an economically viable process. The demand for recycled polyester is increasing gradually in the international markets as there is greater focus about sustainability in the textile sector. Many reputed international brands have expressed firm commitment as well as readiness to pay a substantial premium for recycled polyester products. Our in-house research work is progressing well, and the results are very exciting.

Focusing on innovation in our existing operation at the plants, the company has set up a product development team to develop specialty yarn like hollow POY, multiple profile yarn with unique properties. Several such products are currently imported. These efforts were badly hit by the national shutdown. It has now gained momentum and sampling trials for knitting and weaving into fabrics have started. It is a development process wherein fabric manufacturers take long time for checking and approving the yarn.

We are confident of having a better performance in the fourth quarter. Thank you all for listening patiently. As the results of this quarter have been phenomenal, I'm sure many of you have questions. I am all ears. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Manan Shah from Moneybee Investment Advisors.

Manan Shah: Congratulations on your Q3 numbers. My question was basically earlier, we used to have a spread of somewhere around Rs. 20 per kg however in this quarter we have reported around Rs. 25 per kg. So, I wanted to know how sustainable are these spreads and what has resulted into this increase in the spreads?

Madhu Sudhan Bhageria: Spread increase is mainly due to good demand in the market, so demand for the yarns have increased substantially and a lot of fabric which was imported is not coming in. So, demand for



local fabrics has increased, so that's why there's an increase in the spread. And also, a capacity of around 5-6% was wiped out in February 2020. So, that's why it has created a vacuum in the supply side, and it will remain for times, at least 2-3 years because I don't see any big plant coming in before 2-3 years.

Manan Shah: So, this is not a result of a change in our product mix?

Madhu Sudhan Bhageria: Yes, slightly because of that but not mainly. Mainly it's the demand factor in the market which has given this increase.

Manan Shah: So, now we should be able to maintain spreads around Rs. 25/ kg.

Madhu Sudhan Bhageria: We should be able to maintain this or maybe improve going further because in this quarter also its October-November-December and November was better than October, October was better than September, so it is an upward trend till now.

Manan Shah: Now we are running almost near full capacity around 90%...

Madhu Sudhan Bhageria: See yarn we are running almost full capacity. Only thing is that chips production has been hampered because the availability of raw materials was not fully there. There were some shutdowns in the raw material supplier's plants due to technical reasons, so we had to cut chips because that's the least profitable part. So, we had to cut chips production, so that's why the top line is slightly lower than last year. But as I said our production and sales volume of yarn have been more than last year.

Manan Shah: Can you help me, what is our debt repayment plan over the next 12 to 18 months?

Madhu Sudhan Bhageria: In the current financial year, we plan to reduce by around a 100+ crores, but we'll be adding a 100+ also because of the power plant. So, we will be almost net debt as per near to the last year numbers or little less than that. Going in FY22, we plan to reduce by at least 120 to 150 crores.

Manan Shah: My last and final question on the PET recycling plant that you mentioned. So, have we done any study as to how much CAPEX would that require and do we have adequate land to set up that plant and what sort of timeline will that have?

Madhu Sudhan Bhageria: We have studied about the CAPEX with this regard, we will be doing it in two stages. First we will only convert waste into granules from where we can make in the existing machines yarn or we can sell that to other manufacturers. And then in the second stage, if required we'll put up more capacity to make yarn from that. We will buy a separate piece of land as I'm sure we can get a lot of incentives from the government and also if we make a 100% owned subsidiary even the income tax benefits would be there because for the new company it is 15%, for the existing it is 25%. So, most probably we'll be doing in a subsidiary of Filatex as and when we start to do and the CAPEX of that would be around 120 to 125 crores.



- Manan Shah:** What sort of revenue can that CAPEX generate?
- Madhu Sudhan Bhageria:** Revenue generation would be around 300-350 crores, but I think EBITDA we can get very good, by investing 120 crores we can get EBITDA of around 40-45 crores from that. Main thing is the EBITDA margins are very good in that.
- Moderator:** The next question is from the line of Vineet Mittal, an Individual Investor.
- Vineet Mittal:** This question is for the quarter-on-quarter, the top line is almost same, but the EBITDA margin is phenomenal. So, first thing is, is it due to we don't have chips production in this quarter, as you mentioned, due to the shortage and all?
- Madhu Sudhan Bhageria:** In the quarter-to-quarter, the sales of chips were 8,500 tonnes in the last year. This year the sales of chips is only 394 tonnes and yarn sales have been 85,000 tonnes this year and last year it was 83,500. So, that's why the chip actually adds to the top line but not much to the bottom line. So, that portion has gone away, so that's why percentage wise also the margins have improved. We have had a lower raw material costs compared to last year, but the selling prices are slightly higher than last year, so the margins have increased.
- Vineet Mittal:** The second question is, in the last earning call you said, based on the recycling, we are almost 90% ready with the in-house technology where the giants Nitco Japan and all are still working on that, so what's the update?
- Madhu Sudhan Bhageria:** We are still working on that. There are some finer details we need to close before we go for putting up a plant. So, we are trying to do that. I think it will take another 3 to 4 months for us to be able to go through that because it's a very slow process. In R&D, it takes lot of time, any small change you do, it takes 15-20 days. Then you do some trial runs and then again change. So, R&D takes some time. I think by first quarter next year we should ready with our plans to go into commercial production and putting up our plant for doing that.
- Vineet Mittal:** So, last time we had a pilot plant where we were saying, so based on that we had another pilot, I assume?
- Madhu Sudhan Bhageria:** No, that same pilot plant you keep on doing changes in that, certain parameters, certain parts you keep on changing and then trying to improve the quality. So, we had made a batch plant and now we're converting it into a continuous process because when we actually put it, it will be a continuous process plant.
- Vineet Mittal:** My final question is, so in the past the China used to dump the polyester using a Bangladesh route. So, currently I understand this is not visible, but do you understand now going forward, what would be the scenario?
- Madhu Sudhan Bhageria:** I don't think it will be easy for Bangladesh to produce because I think government has put certain restriction on the garments from Bangladesh. They have said that certain percentage of value addition has to be done in Bangladesh, then only they can send duty free to India. So,



that will restrict lot of imports from Bangladesh into India. So, we will increase demand from the Indian producers.

Moderator: The next question is from the line of the Rishabh Shah, an Individual Investor.

Rushabh Shah: So, in your commentary, I think the Indian yarn manufacturing space is in quite a sweet spot. Would you think across the industry this would prompt a fresh round of capital expenditure?

Ashok Chauhan: Can you repeat the question, the second part?

Rushabh Shah: So, would this prompt a fresh round of capital expenditure in your industry?

Madhu Sudhan Bhageria: It will but we will need some time. I think we will take a bigger CAPEX plan only at end of FY22. We'll be doing a small CAPEX in FY22. That is utilizing our spare capacity where we are making chips and converting that also into yarn, so that we will be taking up in FY22 but any big CAPEX to put up a new fresh plant will be only taken at end of FY22 after seeing FY22.

Rushabh Shah: So, how long you think these expansive margins could sustain in the polyester space?

Madhu Sudhan Bhageria: I think they can sustain for the long time because even China has increased its margins and only China used to be a threat for that, and India will witness a very good demand for textiles for times to come. It is not going to be 1 or 2 years. According to me it can last for maybe 7 to 10 years because China will be vacating space in textile as they are becoming now like a developed economy. So, any developed economy leaves textiles. In past it has been the case from England to Japan to Korea to Taiwan. As they develop, they have left textiles. So, China is bound to leave but China is so huge. The kind of space it will make, India it will take a lot of time to cover up that space. Already they have increased the prices, so we should be having a good run for next decade, I think.

Rushabh Shah: So, these kind of EBITDA margins can essentially sustain for at least the next 2 to 3 years, am I understanding, that right?

Madhu Sudhan Bhageria: Definitely they can sustain this margin, or they can improve also going forward.

Rushabh Shah: You also mentioned, something about the inverted duty structure that is currently sort of plaguing the man-made yarn space. What would be the assuming the government sort of things right on that front, what would be the improvement in your net working capital position pursued to such a change?

Madhu Sudhan Bhageria: For us, it will not make much difference, already we have utilization of working capital very low but for an industry as a whole when people are making fabrics or garments, the credit times are long and from them, if they're buying yarn at 12% and then selling their product at 5%, there is too much of GST that gets locked in and the refunds need to be taken which is a very cumbersome. Net-net government is not gaining anything, but this is creating a lot of red-



tapism throughout the whole industry unnecessarily and as you go downstream, the manufacturers are very small units, and the number is pretty large. That's what we have been asking to the government to make it one tax-one rate. I think, finance minister has reiterated this lot of time but effectively they have not been able to do it. I don't know why.

Rushabh Shah: It's not like at the manufacturer level across the industry there is a lot of input tax credits that is receivable and that is picking up.

Madhu Sudhan Bhageria: We get the refunds, but it takes like 6-8 months and all those issues are there. So, there is a lock-in of the extra GST with the government for a long time and if you are exporting then all the more longer.

Rushabh Shah: What would you say is the average useful life that you consider for the depreciation purposes across your plants and machinery?

Madhu Sudhan Bhageria: Life of plant and machinery?

Rushabh Shah: Yes. On an average, what would that figure be?

Madhu Sudhan Bhageria: We in our previous plant, we have machines which are like more than 25 years old and they're running pretty good. So, it's a pretty long life till the time you take good care of your machines, you can run as long as you want.

Rushabh Shah: So, that is what you would be considered in your depreciation calculations, is that fair to assume?

Madhu Sudhan Bhageria: Depreciation we take for the plant and machinery around 25 years for the main plant and machines.

Rushabh Shah: Across the textile industry, I believe contract laborers do constitute a significant proportion of the labor that works at the factory. So, the cost associated with that, would I find them in the employee benefit expense line item of your income statement, or would it be part of any other line items for your contract labor?

Madhu Sudhan Bhageria: Yeah, that shall be in wages only.

Rushabh Shah: You alluded to some government incentives that could be in the offering for the polyester industry...

Madhu Sudhan Bhageria: Not directly to us but yes like PLI scheme is being worked out for the garments and fabric sectors. So, that will boost garment and fabrics in return. We will get a good demand and we will also be able to make good margins. Directly they are not going to give anything to the filament yarn sector, but I am sure they are considering giving it to the fabric and garments because where they feel that the employment generation is very high compared to the capital



investment. But indirect benefit even we get it because the demand for the yarn increases a lot and also, they have a tough scheme for the downstream.

Moderator: The next question is from the line of Prerna Jhunjhunwala from B&K Securities.

Prerna Jhunjhunwala: Just wanted to understand the industry scenario with respect to what was the demand earlier and what has changed post pandemic because we have seen this improvement only in the last one quarter, so what really changed in the last 6 months and how has the demand supply situation in terms of tonnage changed pre and post-pandemic?

Madhu Sudhan Bhageria: I just explained because the imports for fabrics have reduced drastically. So, Indian manufacturers of fabrics are witnessing a good demand in the downstream. That is why demand for yarn has increased and it is going to sustain for times to come because imports from China have drastically gone down and also imports of garments from Bangladesh has also reduced. So, all that factors have increased demand for the filament yarn and all kinds of yarn. Even cotton is witnessing a very good demand. It's the demand throughout the textile sector, whether it's yarn, fabrics, garment, exporters are also shifting base to India so they want to have alternative source. All these factors have created these margins and demand.

Prerna Jhunjhunwala: How much yarn, filament yarn was imported earlier, and which has created this space?

Madhu Sudhan Bhageria: I don't have those numbers.

Prerna Jhunjhunwala: The spread improvement, that we have witnessed you mentioned that they are likely to stay for 2 to 3 years, largely because?

Madhu Sudhan Bhageria: I said it can stay for a decade not 2-3 years.

Prerna Jhunjhunwala: This is largely driven by...so if it can stay for 2 to 3 years, what kind of spread improvement further can happen or is it something which is just a time will tell us kind of a scenario because there will be product improvements as well that will happen because Chinese product range is quite far higher as compared to Indian product range?

Madhu Sudhan Bhageria: No, it's not like that, even Indian product range, everybody is improving and all the things Chinese are making, we are also trying to make in India. There's a huge import of new machinery which is coming in for the fabrics and garments, I don't see that, maybe certain types of fabrics. Yes, China or maybe Korea and all specialty but the volume wise those numbers are pretty small and these margins I am seeing it should remain at these levels or improve but it's my word and my estimation. I mean nobody can say that it will be different. It's my estimation that it should remain good because worldwide, the demand for filament yarns is increasing almost 3-3.5 million tonnes every year. Those kinds of volumes will not be available from China and when the volumes are not available, of course, the margins should improve on whatever volumes are available.



Prerna Jhunjunwala: This recycle plant that you talked about, what is the market size of this segment and where do you see the demand coming from domestic market, export market and what will be the driver for us?

Ashok Chauhan: Recycling was basically being done by mechanical means on the PET bottles. There is lot of concern about polyester waste and the consumer end waste which goes to landfills and all. So, lot of awareness has come into Europe and America; what/how to do a sustainable textile business. Recycling of polyester waste which is partly bottled high IV compound which is also polyester, and yarn is also a polyester compound. Bottle was being handled by many a people but nobody's handling polyester waste. So, we are now building a chemical process and there are a lot of large, big companies like brands; Nike has committed on buying, Coke has committed to use bottles that if you are going to re-use the polyester and make it as close to virgin as possible that they'll be buying and give you a premium on that. Because ultimately you will not be using the hydrocarbon and the process is actually little more efficient than the virgin one because it doesn't involve the crude part. What we are doing is chemical recycling. We are going to de-polymerize the polymer waste, clean it up, decolorize, filter it out and then re-polymerize. Obviously going to effort in terms of demand, if it is possible, there'll be some way on the long-term basis, we'll come to a stage, whatever you discard will be the demand. You will have a steady state conditions so much of virgin versus so much of recycling. Nobody knows how many years this will take but that's what the stable form will be and all this extra premium and all it needs a certification from international agencies and most of the premiums are coming from export only because these brands all lies outside.

Prerna Jhunjunwala: Is it similar to what Ganesha Ecosphere is doing?

Madhu Sudhan Bhageria: Ganesha is doing basically mechanical recycling. They are melting the bottles and making directly yarn. We will be doing the de-polymerization that is like bringing the waste back to the raw material stage, taking out all the impurities and then again polymerizing and making the polyester out of that. Many people in the world are doing mechanical recycling. Our quality will be as good as the virgin polymer. Their quality is slightly lower than the virgin polymer.

Prerna Jhunjunwala: How will the spreads be for this business, like you said the margins will be higher?

Madhu Sudhan Bhageria: Right now, the yarn made out of the way I am saying and what we are making virgin, the difference is like we sell for Rs. 100 now and the recycled yarn made out of the way I am saying would fetch around Rs. 160 to 170, the same yarn. With that kind of a premium and the cost of doing that the way we are doing; it will be hardly Rs. 5 to 10 higher than the virgin. There's a huge extra premium in that.

Ashok Chauhan: Have you heard a name called Uniqlo?

Prerna Jhunjunwala: Yeah.



- Ashok Chauhan:** That uses all recycled fibers, that's a premium product.
- Madhu Sudhan Bhageria:** All the brands internationally are looking for recycled fibers, but they are not getting the quantity what they desire. There is a huge shortage, they are getting hardly 15% to 20% of what they would like to get, so that kind of a shortage for these products in the market as of now.
- Prerna Jhunjhunwala:** Which means it's multi-years of very strong demand.
- Madhu Sudhan Bhageria:** Yeah, even in India, I think going forward government would make it compulsory for people to use some recycle to create sustainability of the polyester.
- Ashok Chauhan:** Just think of Patagonia, Zara, Uniqlo they are all top brands and who are insisting on recycled fibers. The whole fast fashion industry will probably be shifting.
- Madhu Sudhan Bhageria:** They don't mind paying extra price because the price which they get in their products are phenomenal.
- Prerna Jhunjhunwala:** I'm getting that opportunity because it seems some designers also, really flashing their packaging of the garments also in recycled products and stuff. So, the opportunity is not only in garment but also in packaging?
- Madhu Sudhan Bhageria:** Everywhere this opportunity is there. We will be going step by step. First, we will make chips which can be used to make packaging, which can be used to make PET bottles, which can be used to make yarn, whatever and then based on that, we will further expand and make yarn or make more chips, whatever is the requirement in the market.
- Prerna Jhunjhunwala:** What will be the ROCE of such projects?
- Madhu Sudhan Bhageria:** It's difficult, it will be very high. It could be like 40% something like that. Basically, it's like more like a technology, the technology, which we are trying to develop we will get a premium for that. It's not that anybody wants, who can do it, even if we have to.
- Prerna Jhunjhunwala:** Whatever you are talking about is patented?
- Madhu Sudhan Bhageria:** We are starting the patenting process so it will take maybe 3 to 6 months to get it done.
- Moderator:** The next question is from the line of Arpit Sikka from Karma Capital.
- Arpit Sikka:** As continuing with the previous participant's questions, with rising ESG awareness globally, of course recycled yarn is the way forward and you have made a timely entry into it. Like you said, Ganesha Ecosphere is doing a mechanical process. Is the Visaka Industries is also doing the same old process?
- Madhu Sudhan Bhageria:** Which industry you said?



- Arpit Sikka:** The Visaka Industries the Hyderabad based; they also do PET to yarn?
- Madhu Sudhan Bhageria:** In India?
- Arpit Sikka:** Yes.
- Madhu Sudhan Bhageria:** Yeah, in India most of the people are doing the same.
- Arpit Sikka:** The old process?
- Madhu Sudhan Bhageria:** Yeah.
- Arpit Sikka:** How far are we from first production approximately?
- Madhu Sudhan Bhageria:** It will take lot of time. See after maybe 4 to 6 months, we will start building up our new plant and so by end of FY22, we will be able to come into production, not earlier. Not FY22, calendar year '22.
- Arpit Sikka:** 2022 approximately?
- Madhu Sudhan Bhageria:** Yeah.
- Arpit Sikka:** With crude prices going back up to 57 and Naphtha also following, so the sustainability of this kind of EBITDA?
- Madhu Sudhan Bhageria:** It's not a worry. In our industry basically prices or raw materials are easily a pass through and such a buoyant market when the demand is good; you can easily pass through and maybe get another buck or so.
- Arpit Sikka:** For the next whole year we can, like extrapolate the margins that you made in this quarter?
- Madhu Sudhan Bhageria:** Yeah, definitely, maybe better.
- Arpit Sikka:** This power plant that we've commissioned in the quarter so what kind of savings are we looking at it from an annualized basis?
- Madhu Sudhan Bhageria:** Very-very small power plant just 1.4 MW. The saving will be very less; I mean I am not calculating maybe lakhs only, nothing much. This is just to start, we will be putting more solar, this is on the rooftops we have put whatever is available, to try it out
- Arpit Sikka:** And the thermal power plant which is coming in April?
- Madhu Sudhan Bhageria:** Thermal will be commissioned by April 2021 and that would give an annualized saving of around 45 crores. That is going to be commissioned by April 2021.



- Moderator:** The next question is from the line of Nitin Agarwal from Shreya Investments.
- Nitin Agarwal:** Can you throw some light on how the competition will evolve even from other countries in terms of capacity addition because you said China is reducing its capacity and increased its margin?
- Madhu Sudhan Bhageria:** China is not reducing, maybe they're adding, but see globally the demand for these products is increasing by 3-3.5 million tonnes. Even if China adds a couple of million tonnes, it doesn't make a difference. India at the moment is 4.2 to 4.5 million tonnes. We can add whatever we want. Still, there'll be a lot of space available and the third one, the capacity in India I mean outside is less than a million tonnes. It's Indonesia with 0.8 or 0.85. This is that kind of a difference. Even if we add a 0.5 million every year, still we will not be able to fulfill the world demand. The demand is increasing substantially because in last 10 years, whatever fiber demand has increased, 95% have been met by man-made only. The natural fibers have contributed only to the additional demand by 5%. So, availability of natural fibers is very-very limited.
- Nitin Agarwal:** Since you foresee a very good time for the industry so are you planning of expanding your capacities further and further CAPEX in the next 2-3 years, other than these at specialized, environmental yarn?
- Madhu Sudhan Bhageria:** We do plan to take up another CAPEX but that will take up after end of FY22. Like what we are saying we see practically happening for 1 year more. Also, the availability of raw material is a constraint at the moment in India. If we put up capacity, we'll have to import all the raw material, which is not a very good thing. Reliance and Indian Oil is planning to put up more capacity for the raw material, which would be available end of FY24. We will try and put up a capacity, which will be matching with their production facility coming in so that we don't have a problem with getting raw materials.
- Nitin Agarwal:** This Bhilosa plant that had been destroyed due to fire, have they placed the order for that replacement of that line or how is it now?
- Madhu Sudhan Bhageria:** Yeah, I think they have recently placed the order, but the deliveries are 12 to 18 months. It will not be commissioned before 18 to 24 months.
- Nitin Agarwal:** How much percent that is 5% to 7% of the market today?
- Madhu Sudhan Bhageria:** That is around 5% to 6% of the market at the moment but see market demand is also rising in the double digit. So, even by the time that comes the demand would have overtaken the supply which will come in.
- Nitin Agarwal:** So, that'll be absorbed easily.
- Madhu Sudhan Bhageria:** Yeah, very easily.



- Nitin Agarwal:** Earlier you had a plan to set up a textile processing unit. Are you still holding that plan or?
- Madhu Sudhan Bhageria:** No, right now no because we are now finding this recycling project to be more interesting and in synergy with what we are doing so we'll be focusing more on the recycling part than going into fabrics or something, that's about it.
- Nitin Agarwal:** Can we broadly say for the next few quarters, you will run at full capacity with the best?
- Madhu Sudhan Bhageria:** Capacity utilization in our company has been almost full through-out, barring very-very small instances; otherwise as a year, always we have been utilizing yarn capacity more than 95%. The utilization of capacity is never a problem. The problem is the margins which we get in the market. Now we see these margins to be sustainable or improving going further. That's the main thing.
- Nitin Agarwal:** This will be at least sustainable going forward and if opportunity is...
- Madhu Sudhan Bhageria:** Yeah, this is what I feel it will be sustainable or improving going forward.
- Moderator:** The next question is from the line of Shubham Gupta from Avendus Capital.
- Shubham Gupta:** The first question is from October to January, we have seen a huge rise in yarn final prices. What are the current prices at which you are selling your product? Has it crossed 110-105? What is the current revenue?
- Madhu Sudhan Bhageria:** Our lowest yarn price today is around 88 and the highest is around 180. Which price do I give? We have a product mix where you have different prices for the product. I can't give you one price.
- Shubham Gupta:** I am talking about PTY.
- Madhu Sudhan Bhageria:** In PTY also you have a range right from, let's say Rs. 100 to Rs. 130-140. The range is there in everything.
- Shubham Gupta:** Just asking from December to today, what is the price increase which is there?
- Madhu Sudhan Bhageria:** If I take one commodity particular rate, let's say it was 100. What time-line you would like me to give from October or?
- Shubham Gupta:** From October to January, I just want to understand. Just pick up a particular product which you think is there in your mid-segment from October to January. If you can just give me a timeline. What was this in October-November-December now in Jan?
- Madhu Sudhan Bhageria:** I will just tell you, see the price rise has been around Rs. 16 and out of that around Rs. 11 to 12 has been the rise in the raw material prices. Our margins have increased by Rs. 4 to 5 in this quarter.



- Shubham Gupta:** This year talking about from October to December? I am asking in Jan what are the kind of, again spread increase from 25 to?
- Madhu Sudhan Bhageria:** Jan, still there is no increase in the spreads in Jan. Only whatever there had been increase in the raw material prices has been a pass through.
- Shubham Gupta:** Again, coming out to the capacity utilization you said that in Q3, there was a problem in chips business because the raw material availability was a problem. What do you think in Q4 is happening here I mean in this capacity?
- Madhu Sudhan Bhageria:** Now first half of Jan, yes, we had some issues, but now we have enough raw material. We are utilizing the chips capacity but the margins in chips are very poor, so we don't run chips to the full extent. For the market we run 50%-60% of the extra capacity of chips which we have, other than our own capacity.
- Shubham Gupta:** It's safe to assume that production which you did in Q3 will be replicated in Q4 and not much more than that, 85,000?
- Madhu Sudhan Bhageria:** Not much more than that. With Q3 there were no chips for the market. Q4 will definitely have chips for the market may be around 6000-7000 tonnes.
- Shubham Gupta:** Ex chips it will be 85,000 only, or more than that, leaving the chips aside?
- Madhu Sudhan Bhageria:** It's very difficult to say. You have to keep on changing your product mix, which changes the volumes. It will be in the vicinity (+/-2%) to (+/-3%)
- Shubham Gupta:** More or less it will be same but there can be some aberration?
- Madhu Sudhan Bhageria:** Utilization of all the machines is full, it cannot change more than that now.
- Shubham Gupta:** I have seen in past 3-3.5 months you have done lot of buying in your own company shares but the reduction in pledge is not that much. Any rationale why are we not reducing the pledge that much and what is that loan for...
- Madhu Sudhan Bhageria:** I have pledged my shares with the existing banker. We have not borrowed any money with this pledge. I have said that before also, this is like collateral given for the term loans taken in the company.
- Shubham Gupta:** With this kind of margins which we are doing and currently the business profile, are we not negotiating with bankers again
- Madhu Sudhan Bhageria:** On the paper, this is the first quarter which we have done good after the pandemic. If we are able to do two quarter consecutively and then we can go to the banks to release the pledge. Today no bank will release the pledge. He is not sure whether he will get his money or not. They are facing a lot of stress from other companies. We have to looked from their point of



view also. Had you given it, would you have released the pledge under these circumstances. I don't think so. We have not borrowed money if I release the pledge it is going to lie with me.

Moderator: Thank you. So, we will move to the next question, which is from the line of Deepak from Sapphire Capital.

Deepak: Just wanted to understand you have been, talking about the margins, improvement, on the back of benign, supply demand scenario and in addition to that about 40-45 crores savings as well from the thermal power plant that is likely to get commissioned by April, 2021. So, what sort of improvements in margins are we talking about, if we factor in all this situation from currently odd 16%-17%. So, where do you see it's the stabilizing, after we take the benefit of this impact.

Madhu Sudhan Bhageria: See margin as I said, you have to see in the absolute numbers, if you will see is in percentages, it can always distraught, when we will sell more chips the margin will go down. So, 120 EBITDA might become 125 but margin wise 16 can become 15. So, my goal is to make 120 more than 120. Not to make a percentage higher. So, in our industry being an absolute number is more important, what you make overall, whether from 1000 crores you make 100 crores or from 800 you make 120 crores, which is a better situation. So, 120 is more better than making a 100 from 1000. So, going forward, what I have said, we will make a better EBIDTA than what we have made this year forget the percentages because in the same machine, I can make the two times a yarn on a single time, depending on the market or the product I make. So, my top line will go double if I make a double yarn, but I will not get double the margin. Maybe I get 1.2 times, but still that will be much more beneficial for the company. That's the thing, so whatever margins will improve over and above 120 plus 10 crores EBITDA from the power you can say if we do it. First month, of course it will not add but subsequently after the first quarter, we will have an incremental 10-12 crore EBITDA coming from the savings from the power.

Deepak: So, 10-12 crores per quarter, right?

Madhu Sudhan Bhageria: Yeah, so if I say 45 so that comes around 11-12 crores per quarter.

Moderator: The next question is from the line of Sudhir from Right Time Consultancy.

Sudhir: I believe that the time of Polyester Industry's time has come and the next decade is belongs to the Polyester Industries. So, congrats and all the best.

Madhu Sudhan Bhageria: Thank you.

Moderator: The next question is from the line of Rushabh Shah, an Individual Investor.

Rushabh Shah: Just wanted to understand in the initial remarks you mentioned that this price increase was due to supply side capacity constraint, there been reduction in supply side, so I just wanted to understand that recently Reliance has taken over Alok Industries, so they have large unused



capacity in man-made as well as cotton and plus they also have an advantage in raw material pricing since Reliance has taken over now. So, how does the supply chain dynamics and competition scenario change after the Reliance scenario, the Alok capacity going forward?

Madhu Sudhan Bhageria: Alok has been running throughout the last quarter full capacity, so that is already absorbed by the demand, demand is so robust that it has been absorbed. Alok has always been running 60% of the polyester capacity. Regarding cotton I cannot comment. I am not in cotton business, so I cannot comment about cotton but polyester they have been running 60% so whatever additional they have added in this after Reliance takeover has been absorbed by the market.

Rushabh Shah: I am just saying from the next 2 to 3 years perspective and things when they become bigger player in the market I just want to understand from that perspective.

Madhu Sudhan Bhageria: I couldn't follow, if everything is being absorbed in the market what else they can do? They can bring new capacity even if they want to plan today, it will take at least 2 years for them to bring the new capacity. The kinds of machines, imports and whatever you need to do it takes around 2 years to bring in a big capacity.

Rushabh Shah: Second thing you have mentioned the government is planning the change in the scheme from MEIS to RoDTEP, so what kind of rates do you expect from the earlier rate benefit that was available?

Madhu Sudhan Bhageria: I cannot say but this is what is in the offing. I'm sure they will do something better. It is not for our industry. This will be basically for fabrics and garments .MEIS also was basically mainly for fabrics and garment, our product didn't use to attract any MEIS.

Moderator: The next question is from the line of Vikas Jain from Equirus Securities Private Limited.

Maulik Patel: This is Maulik Patel. I have one question, you mentioned that incrementally round 3 to 3.5 million tonnes polyester yarn capacity every year and you have been adding whatever the number of 0.3 to 0.5 million tonnes and this year you are not adding any large capacity and again Reliance has so far not announced any capacity addition. So, are we going to see material capacity addition from the other players in current calendar year or the next calendar year?

Madhu Sudhan Bhageria: The next calendar year the capacity will come in and that is the capacity that Bhilosa lost in the fire, so they are putting that capacity again. That capacity is around the 0.25 million tonnes. That will be commissioned end of calendar year 22. Other than that, I don't see any major capacity coming in.

Maulik Patel: So, this year the industry demand is much more going to be like tight supply will be there?

Madhu Sudhan Bhageria: It is going to be a very tight supply in at least next 2-3-4 years because also the demand for the yarn is increasing very fast. Lot of looms are coming in; every month thousand looms are coming in and the availability of the yarn from the natural side is very limited. So, mostly they



will be using synthetic yarns and especially polyester. The demand for polyester is going to remain good for times to come.

Maulik Patel: We've been importing a lot from the China but after this anti-dumping duty which was around 12%, the imports must have come down, in the last 1-1.5 year?

Madhu Sudhan Bhageria: Antidumping from China was only on FDY yarn, so that has been removed. So, FDY yarn maybe will start coming end of this quarter. But that will not make a substantial reduction in the margins because in China also availability of that is not very upwards and the freights and inconvenience of importing will always remain. So, I don't think any reduction in margins will happen because of that.

Maulik Patel: Historically we have made from Rs. 10 a kg kind of spread on annualized basis in the last 4-5 years?

Madhu Sudhan Bhageria: No, we have been doing around more like 5-6-7-8.

Maulik Patel: Right now, we were making excess of Rs. 16.

Madhu Sudhan Bhageria: I'm talking about EBITDA not spread. Just would have been higher. Normally I see the EBITDA. EBITDA has been Rs. 6-7. Spreads could be around Rs. 22-23.

Maulik Patel: I was talking about this year. I think given that the way on the historical number, the coming year it can be at least 30%-40% higher on a sustainable basis. Is that affair is assumption?

Madhu Sudhan Bhageria: I foresee yes, it could be at least, this quarter we have made EBITDA of around Rs. 13.5 to 14. So, I see this is a sustainable or maybe improving going further.

Moderator: The next question is from the line of Mohit Bansal from Ajinkya MPL.

Mohit Bansal: Over the last one hour you have explained thoroughly in terms of your confidence on the margins. You would be in a sweet spot now in terms of cash flows. The outlook of about 450-500 crores EBITDA per year, what will be the best use according to the management of this cash flow?

Madhu Sudhan Bhageria: We are putting up like additional capacity to use chips to yarn, convert whatever chips extra we have to yarn, that is one step, which we'll be doing next year. We will also reduce our debt in the next year and later half of the next financial year, we will start building up our that recycling plant. So, these uses would be there.

Mohit Bansal: Anything to reward the shareholders in terms of a good dividend payout policy?

Madhu Sudhan Bhageria: Definitely that we would do, after the end of this financial year we will do either declare dividend or a buyback whichever is more suitable to the shareholders from the point of view of the taxation. Definitely we'll be doing that after this financial year. But whether it will be a



dividend or a buyback that we will see which will be more fruitful to the shareholder in terms of taxation. The taxation policy might be tweaked by the budget, so based on that we will take a call.

Mohit Bansal: My last question would be what are the expectations on the upcoming budget?

Madhu Sudhan Bhageria: Not too much, there's not much to think other than some personal tax or capital or dividend tax from a business point of view. I don't think there's much left in the budget other than these points.

Mohit Bansal: But the inverted duty revision in the GST?

Madhu Sudhan Bhageria: GST cannot be done in the budget. It has to go through the GST Council, so that's not a part of the budget.

Moderator: The next question is from the line of Riddhima Chandak from Roha Asset Managers.

Riddhima Chandak: Just a clarity on the CAPEX part and a recycled polyester chips plant, so what would be our total CAPEX for FY22 and till now how much CAPEX we had done in FY21?

Madhu Sudhan Bhageria: FY21 our CAPEX is mostly for the power project. The total CAPEX for the power project is 165 crores, 6-6.5 crores was for the solar which we have already completed. Other than that, in FY22 we would be doing a CAPEX of around 100 crores for putting up more POY and DTY for whatever chips we have and then maybe 20-30 crores for the recycled project in FY22 and the balance for the recycle project would be taken up in FY23 because the recycle project will go up to FY23. The total cost of in the recycle process would be around 100 to 120 to 130 crores. That's approximate number which we have calculated.

Riddhima Chandak: It would be completed by the end of FY22 you are expecting.

Madhu Sudhan Bhageria: Yeah, we will be able to commission it by end of FY23.

Riddhima Chandak: I missed actually my line was disturbed the time you just stated some numbers, like revenue generation would be 300 to 350 crores and EBITDA would be 120 crores odd. So, this is from these recycled chips?

Madhu Sudhan Bhageria: Recycled the revenue generation could be around 300 crores. It depends on the raw material prices at the particular time, but EBITDA I said we should be able to do around 40 plus for the investment of let's say 120 crores. EBITDA is important than revenue. revenue in our industry as I explained depends more on the raw material prices.

Riddhima Chandak: So, this you are expecting by the end of FY23 this kind of revenues and EBITDA?



Madhu Sudhan Bhageria: Yes, EBITDA for FY23 and whatever we are going to invest in FY22 for the yarn that 100-120 crores or whatever we do that will also get us return on the capital employed of around close to 30%. That should also add another 30 crores in FY22 to our EBITDA.

Moderator: Thank you. Ladies and gentlemen this would be the last question for today which is from the line of Rohit Mall from Avendus Capital.

Rohit Mall: The first question is you mentioned that the imports from China have gone down in the last 3-4 months, so may I know the reason?

Madhu Sudhan Bhageria: Reason is may be people are not able to travel or they want to buy more local, difficult for me to say.

Rohit Mall: This we have heard that freight costs have gone up by....

Madhu Sudhan Bhageria: Freight cost has also gone up like 4 to 5 times than what it used to be pre-COVID levels and availability of container is also very poor. So, there are lot of factors, you can't say one factor is there. Also, prices in China have increased tremendously. I do not know which factors, but definitely the import from China has gone down and looks like it's going to stay for a long time and government also doesn't want people to import much from China. So, they are discouraging the imports from China in whatever way they can.

Rohit Mall: From my industry sources I have heard that over last two weeks the demand has been slow, the reason being the prices of yarn has gone up by 15% to 20%?

Madhu Sudhan Bhageria: The demand was slow for one week or so but it has picked up quite a bit from first of Jan I think the demand has been very good in the West, in North it is slightly slow because of this farmers agitation and they are not able to move their goods so much. But overall, the supply side, I mean the sales side there is no problem because normally they are booking orders for one month or 20 days. So, if even it's slow for a week or 10 days it doesn't make a difference in sales volume. Only thing is you don't get more bookings, but your sales are continuing because you have orders booked for that period. So, your order book will slightly go down and then when again demand comes up you can fill your order book.

Rohit Mall: But prices have gone up by 15%-20% I heard, is that correct?

Madhu Sudhan Bhageria: Yah prices have gone up but also the raw material has gone up, so everything is not prices which have gone up is a margin. Mainly raw material prices have gone up and also some margin improvement has been there.

Moderator: Thank you. As this was the last question for today, I would now like to hand the conference over to Mr. Madhu Sudhan Bhageria for closing comments.

Madhu Sudhan Bhageria: Thank you everybody for joining us and hope to catch up with you in the next con call. But if you have any questions or any more clarifications required, please email to my team and me.



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We will be more than happy to answer and take care of that. Thank you very much. Have a good day.

Moderator:

Thank you. On behalf of ICICI Securities Limited that concludes this conference. Thank you for joining us and you may now disconnect your line.