



FILATEX INDIA LIMITED

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National Stock Exchange of India Limited
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Security Symbol: **FILATEX**

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Security Code: **526227**

Sub.: Transcript of Conference Call on 18th February 2020

Dear Sir,

This is in continuation to our letter dated 14th February 2020 on the Q3FY20 Earnings Conference Call on 18th February 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

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“Filatex India Limited Q3 FY20 Earnings Conference Call”

February 18, 2020



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

Moderator: Ladies and Gentlemen, Good day and welcome to the Filatex India Limited Q3 FY20 Earnings Conference Call. We have with us today Mr. Madhu Sudhan Bhageria, Chairman & Managing Director of the company, Mr. Ashok Chauhan, Executive Director of the company and Ms. Stuti Bhageria – Senior Vice President, Corporate Strategy of the company. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing ‘*’ and then ‘0’ on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Madhu Sudhan Bhageria for opening remarks. Thank you and over to you, sir.

Madhu Sudhan Bhageria: Thank you. Good day and a warm welcome to all of you attending this conference call for the quarter ended December, 2019 of FY2019-20. 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, Ms. Stuti Bhageria, Senior Vice President, Corporate Strategy. As mentioned during the last conference call which was after a long gap, we are keeping our promise for concall every quarter. Coming back to the current scenario in overall perspective the slowdown of Indian economy has not reversed yet. The slowdown is global and government of India is addressing the issue with industry captains, expert, economists and industry associations. The sectorial structure anomalies have been identified and gradual remedial actions are being taken.

At global level, 90% of the world economy are experiencing slowdown due to various reasons like geopolitical tensions, trade imbalances leading to trade conflicts and cyclic nature of economy. Adding to the worst is the outbreak of coronavirus, which has paralyzed economic activity and movement of people, supply lines and shipments. The effect is widespread impacting tourism, airlines, auto industry, electronics, pharma, textile etc. During the last quarter, in India, the slowdown effect continued across most of the industry segments in the country. The unemployment numbers are rising. The growth in domestic consumption is still down. The resolution process is taking time. Government of India now has started recognizing this overall slowdown and has started addressing these issues keeping in view resource availability and fiscal constraints. A special focus is on not only on revival of consumer demand and consumption, but also on creating a conducive environment for fresh investments. We all hope that in a couple of quarters, the growth cycle will be on the upswing.

There is no unique strategy in tough times except hard work and perseverance. Every company responds to this slowdown in a different manner. Our strategy has been increasing our production capacity with consistent quality. In the textile segment, the upheaval has been quite strong and higher visible in the numbers specially exports which continue to decline. During this financial year, we have managed to keep our capacity utilization high though the margins are squeezed as we have registered growth in volumes. The drop in topline is not a cause of worry as prices have been falling every quarter in line with drop in raw material prices. The value addition has a small decline due to lukewarm demand amongst downstream users.

With regards to the financials of Q3 of FY20 notwithstanding the continued slowdown in the market, the company has reported revenues of Rs.737 crores as compared to Rs. 746 crores in the corresponding quarter of previous year.

EBITDA for the quarter stood at Rs. 55.9 crores as compared to Rs.39.7 crores in Q3 of FY19. The net profit for Q3 of FY20 stands at Rs.18.6 crores as compared to Rs. 16.3 crores in Q3 of FY19. The increase in profit in Q3 FY20 is due to increased production. During last quarter, we touched a volume of 90,102 tons which works out to around 1,000 tons per day. In our filament lines, we achieved a capacity utilization factor of 95% however the margins were squeezed. Though generally the delta margins are protected. The sluggishness of the market response leads to inventory pile up in downwards trends of raw materials. The crude prices have remained volatile with downwards trends. Thus, in spite of increased production, the top line is almost the same. The other factor lowering the net profitability is adversity of foreign exchange rate which eroded the profitability by around Rs. 7 crores.

On 9-month basis, the revenue for three quarters is Rs 2,115 crores as compared to Rs 2,168 crores for similar period in FY19. EBITDA for 9 months of FY20 is Rs. 159.7 crores as against Rs 161.4 crores for similar period of FY19. Profit after tax for 9 months of FY20 is Rs 100.5 crores as compared to Rs 56.7 crores for 9 months of FY19. This spurt in profit is on account of change in corporate tax rate.

We remain bullish about our future prospects. Indian polyester industry for last six years was at a distinct disadvantage in global competitiveness on account of anti-dumping duty on key raw material that is PTA. MMF industry and users of PTA had been vigorously representing and following up with the government authorities to remove the structure anomalies which are hampering the growth. Polyester industry continues to suffer on account of GST, inverted GST structure, higher rate of 18% on raw material and 12% on finished products like yarn and fiber and going forward 5% on fabric and garment.

Government of India has finally realized the importance of man-made fibers as part of textile chain and has taken a favorable decision. Though, through tireless efforts of industry representation and some vigorous initiative by textile ministry, the additional anti-dumping duty on PTA has been abolished by Ministry of Finance in this budget. The whole polyester industry has heaved a sigh of relief as this has been a major burden slowing down the growth of polyester industry. This is likely to have a huge impact in business environment as well as global competitiveness. We have also added more texturizing capacity during the last quarter which opens up export as well as domestic market. It may be in line to mention that we were facilitated for third best performance in export by SRTEPC (Synthetic & Rayon Textiles Export Promotion Council) for last financial year. We understand that government of India is in the process of correcting the inverted duty structure. This will lease out the financial stress of the polyester manufacturers at no loss of revenue to the government.

We have realigned our focus on increasing margin not just through cost reduction, but also by adding new filaments with niche characteristics. Trial runs of some of the new filaments have been successful and we will soon start marketing of these products. We had identified high energy cost at Dahej Plant as key component for cost reduction. We are in the process of setting up 30 megawatt captive power plant. All technical work of scope, basic engineering and design ordering etc. have been completed. We are targeting commissioning by December 2020 certainly a very aggressive time schedule which is rather difficult but not impossible. As mentioned earlier, the annual impact of this reduction upon completion of the project will be in the magnitude of Rs.50 crores EBITDA annually. Keeping in view the global trends, we have initiated some research work on recycling of polyester waste in all forms.

The demand for recycle polyester is increasing rapidly as leading brands in fast fashion segments are promoting sustainability in textile industry. Therefore, the demand for recycled polyester fiber is increasing rapidly and commanding a hefty premium. In the months to come, we are fully geared to utilize our capacity and we are sure that the polyester industry in India will do well. Thank you.

Moderator: Thank you very much. Ladies and Gentlemen, we will now begin the question and answer session. We take the first question from the line of Hardik Jain Individual Investor. Please go ahead.

Hardik Jain: Sir, you mentioned in the press release that abolition of anti-dumping duty on PTA in this budget has given a positive stimulus, can you please elaborate a bit more on this. Can we expect some demand improvement overall, domestically and international markets?. Can we expect an increase in our exports from this?

Madhu Sudhan Bhageria: Yes definitely, this will increase demand as this will reduce imports of yarn and fabrics because we were at a disadvantage in terms of cost as there were no anti-dumping on fabrics or garments. People could bypass the anti-dumping by importing fabrics. Therefore, the demand for fabrics made-locally will increase and in turn will increase the demand for yarn. It will slightly improve the competitiveness also in the export market as now we do not necessarily need to import and sell. We can use local also and sell and take a duty draw-back.

Hardik Jain: Sir, my next question is on world fiber production data which is given in your presentation. The total synthetic fiber production has been around 79.1 million tons for FY18. Is it possible for you to give some sense on the next 5 years or 10 years production data? What kind of number we can expect?

Madhu Sudhan Bhageria: As you have seen, most of the incremental growth has come only from synthetic manmade fiber. It is almost 95% and the demand has been increasing at 4% CAGR. The whole of 4% CAGR will now come from synthetic most of it and that kind of a demand will be created. Almost 3 million tons of synthetic yarn is needed every year now which was previously given by China. India's total production of synthetic filament is close to 5.4 million tons. So, we can imagine the kind of growth India can achieve as China is now slowing down in these sectors.

Moderator: Thank you. We take the next question from the line of Nilesh Karani from Magnum Equity Broking. Please go ahead.

Nilesh Karani: Sir my question is on China like if this China scenario persists and production slowing down, then do you expect that it would be it beneficial for our company or are we looking at some good shift in this?

Madhu Sudhan Bhageria: It will be good for the total polyester industry specially and also for us.

Nilesh Karani: So it will impact our margins?

Madhu Sudhan Bhageria: Yes, it will increase our margins and also the overall performance. We are utilizing almost full capacity, but the companies which are not utilizing full can also start increasing the capacity utilization. But margins will definitely improve.

Nilesh Karani: Sir my next question is what would be our CAPEX now like going forward like means power plant I think you told technically so you need to invest more correct?

Madhu Sudhan Bhageria: Yes, we have already committed for the power plant and we have not committed to any more CAPEX in the next year other than the power plant. We are working on recycling of polyester. Once we are able to finalize the technology in-house then we will need an investment of around Rs. 50-60 crores to bring that into shape.

Nilesh Karani: And sir our growth would be for next like for example next three quarters if we see if we want to project our growth so where we are looking this growth to coming from like?

Madhu Sudhan Bhageria: Mostly it will come from improved margins and also our texturizing machines which are being installed so an increase in the production of textured yarn. So next 2-3 quarters volume increase as such will not be there. More it will be through value addition and increase in margins because of demand.

Nilesh Karani: So, value addition if you say like are we going into some other mix and match?

Madhu Sudhan Bhageria: No, we are trying to develop some niche products which will give us a better realization in the market.

Moderator: Thank you. We take the next question from the line of Yusuf Inamdar from Motilal Oswal Securities. Please go ahead.

Yusuf Inamdar: Sir, can you please elaborate on the savings after the spending on the captive power plant?

Madhu Sudhan Bhageria: Yes, this captive power plant will give us a 50 crore EBITDA in a year so that will be the difference between the cost of power which we are paying now and what we will be incurring once we commission this power plant.

- Yusuf Inamdar:** And if we want to quantify in terms of margin improvement, so how much bps margin improvement can we expect?
- Madhu Sudhan Bhageria:** I think almost 100 to 150 points bps we should have improvement from first quarter of next year and also in this quarter we should have improvement. So going forward, within 2-3 quarters we should have improvement of at least 150 basis points.
- Yusuf Inamdar:** And sir one more thing on the coronavirus you said there will be lower production in China, so if we want to say put a number on it like in what percentage terms?
- Madhu Sudhan Bhageria:** Right now in China, what I know, the plants are operating at 40% capacity.
- Yusuf Inamdar:** Okay compared to like...
- Madhu Sudhan Bhageria:** Normally they operate at around 75% - 80% so today they are operating at 40%. But see the consumption also has gone down. The whole of China is virtually shut. Once they open up then we will have to see how it happens. Downstream things like fabric and others the production is even much lower than 40%.
- Yusuf Inamdar:** Is it correct to assume the entire shift in demand will come to India?
- Madhu Sudhan Bhageria:** Yes, already people have started procuring more from India but let us wait and see I think after February we would know better how long it will continue.
- Yusuf Inamdar:** And one last thing sir after the new plant is operational so what is the peak turnover that we can achieve with the existing plant running at optimum capacity and with the new plant?
- Madhu Sudhan Bhageria:** It depends on the price of the raw material like now also this quarter we have done 30% more volume than last year quarter, but the top line is 2% to 3% lower than of last year. The price of the raw material plays a lot of role in the topline, but we assume we should be doing around 3,100 - 3,200 crores.
- Moderator:** Thank you. The next question is from the line of Harshal Mehta from B&K Securities. Please go ahead.
- Harshal Mehta:** Sir, if you can quantify the impact of abolishment of anti-dumping duty on PTA, to what extent the raw material cost?
- Madhu Sudhan Bhageria:** I think it will impact around Rs. 1.60 to Rs. 1.70 per kg in my raw material prices have gone down.
- Moderator:** Thank you. The next question is from the line of Kalpesh Parekh from Prabhudas Lilladher. Please go ahead.

- Kalpesh Parekh:** Sir, my question is more on this anti-dumping duty which has been lifted like what type of margin improvement we can foresee because of this because I believe your cost will also come down?
- Madhu Sudhan Bhageria:** I think from once it has been lifted from 2nd of February, we should have at least a 100 basis point margin improvement just from anti-dumping duty removal.
- Kalpesh Parekh:** So, that will get reflected in Q4 or probably?
- Madhu Sudhan Bhageria:** Q4 yes definitely for the two months we will have reflection of that. So it will be likely you can say two-third maybe around 70 basis point improvement can come through in Q4.
- Kalpesh Parekh:** And basically now from where this PTA we would be sourcing?
- Madhu Sudhan Bhageria:** We were already sourcing it from India only mainly. Only for export, we were sourcing from outside. But the prices that Indian producer were charging was including some small component in lieu of anti-dumping duty that they have now removed. So the price for PTA has gone down by Rs. 1.80
- Kalpesh Parekh:** So we do not have to source it from overseas some country?
- Madhu Sudhan Bhageria:** No, we do not need to source from overseas as it is just a correction in the extra prices which they were charging over and above the international prices.
- Kalpesh Parekh:** So same vendor can also supply at the reduced price?
- Madhu Sudhan Bhageria:** Yes, the same vendors like Reliance, Indian Oil and Mitsubishi, they are supplying at reduced prices now. So normally they supply on the import parity basis, So they were charging a small premium because of anti-dumping duty. So now premium has gone away so they are now supplying at the import parity.
- Kalpesh Parekh:** And post this coronavirus outbreak whatever we are hearing like any export impact do you foresee for your business as such or no such impact for us?
- Madhu Sudhan Bhageria:** I do not see much impact because once even coronavirus goes away, the demand is also increasing and there is no new capacity coming in next two years. So the local demand should be quite robust, and government has recognized the importance of manmade fiber in textile. So that is why in this budget they have removed anti-dumping duty in the larger interest, (public interest)and they will be taking some steps for the manmade fiber that they have recognized can make textiles sector grow in India. As you have seen in my presentation of world fiber production , 95% of growth has come only from manmade fibers in last 10 years (the increase).
- Kalpesh Parekh:** Then exports can you expect some kicker or positive rub off?

Madhu Sudhan Bhageria: No once they open up again we will be back to same position in exports, but once we have got new customers in new areas it will help us increasing our volume in exports because right now most of the customers are looking at India and the demand for export is good. So this is helping in increasing our customer base in exports.

Kalpesh Parekh: And sir you mentioned like also because of PTA and also because of power related savings whatever we will be making so when should we expect to double digit type of EBITDA probably should we expect something that in the next?

Madhu Sudhan Bhageria: I think fourth quarter of the next financial year and from there onwards we should expect a double-digit EBITDA.

Kalpesh Parekh: But that would be sustainable type of thing?

Madhu Sudhan Bhageria: Yes definitely it can improve also.

Kalpesh Parekh: And what would be if you can throw some light on your expansion plan, is there any further expansion plan or broadly we have done with expansion?

Madhu Sudhan Bhageria: No, right now we are done with expansions now and we are concentrating on the recycled line because that is today selling at a huge premium in the market. So, we are trying to develop our own technology and once we have done it we will set up a plant which will take another one year that will increase the margin tremendously because today these products are selling around Rs. 50 to Rs. 60 per kg extra over and above the Virgin product which is quite huge and the cost of production is similar to the Virgin and the demand is that great.

Kalpesh Parekh: So here everything like any more work we need to do on this?

Madhu Sudhan Bhageria: We are doing our own research; we are quite successful. Hopefully by next quarter, we should be able to declare that we would be going for new expansion for recycling.

Kalpesh Parekh: And like your post expansion thing what should be like the peak turnover what we can achieve from the current...?

Madhu Sudhan Bhageria: Turnover will not increase much because volumes we have already hit quite high. So turnover wise we would be doing maybe close to 3,200 crores until and unless the raw material prices go up and at today's raw material prices level, we should be doing close to 3,200 in a full year.

Kalpesh Parekh: But with a better profitability?

Madhu Sudhan Bhageria: Yes, definitely. The idea is to improve the profitability. Turnover depends on the raw material prices. Volumes we have been increasing almost every year. From last year to this year, there has been an increase of 30% in the volumes.

- Kalpesh Parekh:** Sir, basically also like we are seeing lot of value-added products in your PPT that a lot of focus on value added products?
- Madhu Sudhan Bhageria:** Yes. Now we have created a new team to just concentrate on value added products so we are coming out with new value-added products and slowly it will pick up in the markets so may be next quarter it should give more effect.
- Kalpesh Parekh:** In this quarter despite that we saw sharp increase on chips production, so I was puzzled on that front because normally...?
- Madhu Sudhan Bhageria:** Yes, when there was a good demand, we produced chips. We could go up to 1,050 tons per day (polymer) but on an average, we were doing around 1,000 tons and that 50 tons short was only on the chip accounts, yarn is running almost full capacity.
- Kalpesh Parekh:** But that going forward that chip production will go down?
- Madhu Sudhan Bhageria:** It depends on a margin, but I assume that we should be able to do 1,000 tons productions. So out of that, around 910 tons is yarn and around 90 tons or 100 tons is chips.
- Kalpesh Parekh:** And sir can we expect some dividends distribution policy?
- Madhu Sudhan Bhageria:** Definitely, after this financial year we would make a policy and declare some dividend.
- Moderator:** Thank you. The next question is from the line of Rushubh Shah from RS Capital. Please go ahead.
- Rushubh Shah:** Sir, I would like to ask you one thing sir has there already been a shift in polyester yarn prices worldwide upwardly due to the coronavirus issues?
- Madhu Sudhan Bhageria:** No, upwardly there has not been a major shift in the worldwide, but in India there has been slight increase in the prices.
- Rushubh Shah:** So the production cut in China has not yet affected the world market for polyester yarn?
- Madhu Sudhan Bhageria:** Not yet. In the world market, the supply chains are quite long and already because China closes during this period for 2-3 weeks, everybody has planned their production accordingly. There has been some increase in demand from India but let us see after February we will know much more. If they still do not open up then there should be some increase in the prices in the export market.
- Rushubh Shah:** Sir, about a finance cost in this quarter how much of it is attributable to interest and how much is to Euro fluctuation ballpark figures
- Madhu Sudhan Bhageria:** Rs. 7.5 crores are due to Euro fluctuations and today's euro prices look to get might get corrected in this quarter.

- Rushabh Shah:** Final question for Stuti Bhageria Ma'am, what are the deficiencies that you have seen in the corporate structure of Filatex and any plans to rectify the same?
- Stuti Bhageria:** So I think I mean both for me and for my brother one of the things which we plan to do is to make the company a lot more technically savvy because obviously before we joined, the company's employee average age is more towards the 40-50 year. So our aim is to ensure that you know, the company is running and working at the same stage (level) to that of other companies not only in our industry, but also across different industries that are running and making use of technology and streamlining their processes to a very large extent.
- Moderator:** Thank you. The next question is from the line of Umesh Patel TCG Asset Management. Please go ahead.
- Umesh Patel:** Couple of questions just wanted to understand what is the total PTA market size in terms of you know metric tons and what is the total import as of now in India?
- Madhu Sudhan Bhageria:** See the total market size in India would be around 6.2 or 6.4 million tons of the total utilization. Imports are around 400,000 tons. Mostly people who are importing till now were importing only for exports for the re-export portion because there was anti-dumping from all over the world barring Europe.
- Umesh Patel:** So China contributes anything I mean in terms of you know imports?
- Madhu Sudhan Bhageria:** China also not very significant, but Yes China would be around let us say around 20% of the total import.
- Umesh Patel:** And I just wanted to understand you know as you mentioned about capacity utilization, demand pickup, margin expansion would be there in fourth quarter and next year, what kind of you know I mean overall earnings growth that you are anticipating considering all these factors you know lower raw material prices there will be operating leverage as well that will play out?
- Madhu Sudhan Bhageria:** I said this quarter we will get around 70 basis points to 100 basis point improvement in the margin and going forward it should go to 150 basis point, then once the power plant comes that will add another 200 basis point so that will bring us to double digits.
- Umesh Patel:** And the cost of that installation of that power plant would be how much, what would be the capacity for...?
- Madhu Sudhan Bhageria:** Cost of installation is 160 crores.
- Umesh Patel:** So you expect 50 crore EBITDA saving that is 20% of your FY20?
- Madhu Sudhan Bhageria:** Yes, this is I mean minimum savings. We expect, it could be more, but I am giving you a very conservative number

Umesh Patel: Sir, post anti-dumping abolishment as you mentioned the prices you know the pricing scenario between domestic players as well as imported price are at par, right?

Madhu Sudhan Bhageria: Yes.

Umesh Patel: And what would be the debt reduction plan for FY21?

Madhu Sudhan Bhageria: For FY21, we would be repaying roughly around 65 crores.

Umesh Patel: Do we see any further price correction in PTA particularly from current level because I understand that the PTA price is already corrected by 10%?

Madhu Sudhan Bhageria: Right now, they have collected extra premium they were charging because we have a contract from April to March with them. So, let us see when the negotiation will start in March for the next year maybe there can be a slight improvement in the discounts.

Umesh Patel: So that contract is for one year so is there any clause of quarterly change in the pricing terms or any formula?

Madhu Sudhan Bhageria: So, if any major things happen like if there is change in custom duty or abolition of anti-dumping duty or introducing, then there is a change. Otherwise, there is no change in the formula.

Umesh Patel: And you mentioned that 3,100 or 3,200 crores for revenue that we are anticipating that is for FY20?

Madhu Sudhan Bhageria: No. FY21. In FY20 already we have completed three quarters and the total will be close to 2,900.

Moderator: Thank you. The next question from the line of Nisarg Bhageria from Lucky Investment. Please go ahead.

Nisarg Bhageria: Sir, what is the typical asset turnover of our business let us say example when we want to setup a 100 crore when we do Rs. 100 crore CAPEX what is the typical topline in EBITDA margin you target?

Madhu Sudhan Bhageria: If we do a greenfield, it is normally 1:2, but if you are doing a Brownfield project it could be 1:2.5 or 3.

Nisarg Bhageria: And margins are typically between 10% to 12% or higher?

Madhu Sudhan Bhageria: Return on investment is closed to around 20%.

Nisarg Bhageria: ROC is around 20%

Madhu Sudhan Bhageria: Yes.

Nisarg Bhageria: And this is the same segment where you know the largest player is Reliance and then Bhilosa, Wellknown right?

Madhu Sudhan Bhageria: Right.

Nisarg Bhageria: So now the segment is consolidated between how many four, five players in India?

Madhu Sudhan Bhageria: No there are around 15 players who have polymerization and another 15 players who are starting from chips to yarn, but if you take the top 6-7, maybe we will be close to 70% - 75% of the capacity.

Moderator: Thank you. We take the next question from the line of Rishabh Shah from RS Capital. Please go ahead.

Rishabh Shah: I just wanted to understand sir on the supply side, we have been hearing that larger players like Alok industries and Garden silk have been acquired by largest players, so how is the supply side situation change post this test coming to full-fledged more production both on the supply side production side as well as the raw material prices how will it impact us?

Madhu Sudhan Bhageria: I do not think much because see Alok has been running around 50% - 60% of the production already so there will be an increase of 30% to 40% of the production which will be gradual and similarly Garden had been running its production capacity to around close to 70% already. It is not that they were closed, they are already running these productions. So whatever incremental increase will be there will be taken care because there is also increase in the demand. Almost 10% increase in the demand every year we witness. So that should be taken care of by increase in demand.

Rishabh Shah: And sir how much power advantage do you have at least other players in other states I heard that players in Silvassa have certain price lower power cost as compared to...

Madhu Sudhan Bhageria: Yes, they have around Rs. 2.5 to Rs. 3 power advantage, depending upon, per unit or Rs. 2.5 per unit. So once we put our power plant we will be at par or better than them.

Rishabh Shah: And sir what is the impact on this PTA anti-dumping duty removal?

Madhu Sudhan Bhageria: PTA anti-dumping has made PTA cheaper by Rs. 1.80 paisa as of now and going forward, after March negotiation, maybe we will save some more.

Rishabh Shah: But full benefit how much of it will be passed on to customers and how much can be retained?

Madhu Sudhan Bhageria: See it depends on demand and supply basically. It is based on more competitive. Now imports will reduce. So most of us will go into the improvement in margin let us say even 50% goes, we will improve our margin by 100 basis points.

- Moderator:** Thank you. The next question is from the line of Harshal Mehta from B&K Securities. Please go ahead.
- Harshal Shah:** Sir, just a follow up question can we share that proportion of that benefit which you plan to passed on with your customers after that Rs. 1.7 per kg reduction in raw material cost?
- Madhu Sudhan Bhageria:** This is not planned. Basically it gets reflected in the selling price and demand and supply. Initially, we had passed on almost everything but now demand being robust we are able to increase our prices.
- Harshal Shah:** Okay so there would not be reduction in your selling price you do not intend to pass on to customers, right?
- Madhu Sudhan Bhageria:** We do intend, but there is good demand. We are already not making enough money what we should. It is not in my hands if I sell cheaper other guys are selling costlier why would I keep on selling cheaper.
- Moderator:** Thank you. We take the next question from Dhiral Shah from Phillip Capital. Please go ahead.
- Dhiral Shah:** Sir, what is the debt reduction plan going ahead?
- Madhu Sudhan Bhageria:** Yes, next year we plan to repay at least Rs. 65 crores and depending on the cash flow we have no major expansion plan we can pay more, but minimum repayment would be Rs. 65 crores.
- Dhiral Shah:** So whatever capacity we are expanding right now so by when you are expecting it to fully ramp up?
- Madhu Sudhan Bhageria:** By first quarter of next year we would be fully ramped up. Already POY has been ramped up, texturizing is in the process of being implemented. So the process of implementation we would get completed by March end or first week of April and then within first quarter we would be able to ramp it up fully.
- Moderator:** Thank you. The next question is from the line of Rajiv Bharati from India Nivesh. Please go ahead.
- Rajiv Bharati:** Sir, in terms of your gross margin per kg that has dropped by close to 70 paisa on a YoY basis, is that right?
- Madhu Sudhan Bhageria:** Yes it has dropped on YoY basis.
- Rajiv Bharati:** And on a blended basis your realization is down by close to 29 odd percent?
- Madhu Sudhan Bhageria:** No, realization is down because of the price raw material prices.
- Rajiv Bharati:** I agree, but I am saying so your gross margin is close to Rs. 16 on your blended basis per kg?

Madhu Sudhan Bhageria: You are talking about the quarter or a year?

Rajiv Bharati: For the quarter?

Madhu Sudhan Bhageria: For the quarter my gross margin is around Rs. 22 or 21 raw material cost minus selling price.

Rajiv Bharati: What I am doing for the calculation I did consistently for the last three quarter from the reported numbers it looks like close to Rs. 16.2 for the current quarter, 16.4 for the previous quarter and 16.9 for the YoY basis a year back and this 29% drop is easily ballpark in the drop in the raw material?

Madhu Sudhan Bhageria: The raw material prices like PTA and MEG prices I have worked out have dropped by 31% from last year.

Rajiv Bharati: And the 16 deltas in the gross margins is the workable number or do you think this can expand further?

Madhu Sudhan Bhageria: No it should extend further even in this quarter it should improve by at least 70 paisa, 80 paisa and then going forward at least, a Rupee and Rs. 1.5.

Rajiv Bharati: So you are talking about close to let us say Rs. 18 is the best?

Madhu Sudhan Bhageria: No it is not the best it can go to 20 also.

Moderator: Thank you. The next question is from the line of Chetan Kumbar Individual Investor. Please go ahead.

Chetan Kumbar: So I just wanted to know what kind of technology you implement and what is the perfect plan and what is in market demand and how is going to help us to increase our revenue?

Madhu Sudhan Bhageria: You are talking about recycle.

Chetan Kumbar: Yes recycle of polyester?

Madhu Sudhan Bhageria: Yes, recycle we are developing our own technology and we plan to setup a 100 ton per day plant which will give us close to production of 350 so maybe 350 crores of top line.

Chetan Kumbar: Per year?

Madhu Sudhan Bhageria: Yes.

Moderator: Thank you. Ladies and Gentlemen, there are no further questions I would now like to hand the conference over to Mr. Madhu Sudhan Bhageria for his closing comments.

Madhu Sudhan Bhageria: Yes, I would thank all the people who had participated in the conference. Anything you need to know further please free to send me an email. Thank you for participating.

Moderator: Thank you. On behalf of Intellect PR that concludes this conference. Thank you all for joining us, you may now disconnect your lines.