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National Stock Exchange of India Limited
Listing Department
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Bandra-Kurla Complex, Bandra (E)
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 28th January, 2022

Dear Sir,

This is in continuation to our letter No. FIL/SE/2021-22/65 dated 25th January, 2022 on the Q3FY22 Earnings Conference Call on 28th January, 2022. 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 FY-22 Earnings Conference Call”

January 28, 2022



MANAGEMENT: MR. MADHU SUDHAN BHAGERIA – CHAIRMAN AND MANAGING DIRECTOR (CMD)
MR. ASHOK CHAUHAN – EXECUTIVE DIRECTOR
MS. STUTI BHAGERIA – SVP OF CORPORATE STRATEGY

MODERATOR: MR. VIKRANT KASHYAP – K R CHOKSEY RESEARCH

Moderator: Ladies and gentlemen, good day and welcome to the Filatex India Limited Q3 FY22 Earnings Conference Call hosted by KR Choksey Research. 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 now hand the conference over to Mr. Vikrant Kashyap from KR Choksey Research. Thank you and over to you, sir.

Vikrant Kashyap: Thank you. Good evening, everyone. On behalf of KR Choksey Research, we welcome you all for the Q3 FY22 earning conference call of Filatex India Limited. I take this opportunity to welcome the management of Filatex India Limited represented by Mr. Madhu Sudhan Bhageria - Chairman and Managing Director, Mr. Ashok Chauhan - Executive Director and Ms. Stuti Bhageria - SVP Corporate Strategy.

We will begin this call with a brief overview of the company by the management, followed by the Q&A. I now hand over the call to Mr. Madhu Sudhan Bhageria for his opening remarks. Thank you and over to you, sir.

Madhu Sudhan Bhageria: Thank you. Good day to all of you. Once again, a warm welcome to everyone attending this earnings call for the quarter ended December 2021. We are still not out of danger to health and life. The third wave of COVID has finally caught on. I hope all of you are safe and are observing necessary precautions to contain COVID. We hope this third wave will soon ebb out and we will restore our daily life and business activities in full swing.

Coming back to matters of business, I presume you would have gone through the presentation which has been uploaded on our website as well as on the stock exchanges. You would have noticed that our performance in the third quarter of FY2022 has been better than the second quarter both in terms of top line and bottom line. We have, for the first time, crossed Rs. 1,000 crores in revenue in one quarter.

Let me quickly go through the results of this quarter Q3 FY22. We achieved a production volume of 86,366 metric tons as compared to 88,918 metric tons in Q2 FY22. The production is slightly lower by around 2.9%, which is predominantly on account of product mix. However, the sales volume achieved in Q3 FY22 were marginally higher at 90,398 metric tons as compared to 90,054 metric tons in the previous quarter.

The revenue for this quarter was Rs. 1,074 crores, which shows a growth of 11.3% over Rs. 965 crores in Q2 FY22. When compared to on a year-on-year basis, the growth is 49% over Rs. 722 crores in Q3 FY21. The operating profit EBITDA is around Rs. 159 crores, a growth of

around 27% over the preceding quarter at Rs. 125 crores. Profit before tax is Rs. 148 crores, which is an increase of around 35% over Rs. 110 crores. The net profit PAT has increased to Rs. 98 crores in this quarter, an increase of 32% over Rs. 74 crores in the previous quarter. As evident from the numbers, the performance is consistently improving.

Comparing the performance of this quarter on year-on-year basis, EBITDA stands at Rs. 159 crores compared to Rs. 120 crores, a growth of around 32%. Profit before tax is Rs. 148 crores compared to Rs. 91 crores, a growth of 63%. While net profit PAT stands at Rs. 98 crores compared to Rs. 66 crores, an increase of 48%.

The market has shown good recovery ahead of the festive season. Though there is some buoyancy in the sentiments of the market, the offtakes have been cautious. Northern Indian markets surprisingly were quite dull. The pre-Diwali business coupled with the start of wedding season has been good. Prospects for exports are also looking upwards but are somewhat marred by very high shipping rates and erratic schedules, which made us uncompetitive against Chinese prices.

The government has recognized the importance of synthetic fibers for growth of textile business. Government has announced several policy initiatives which have helped in stimulating the sentiments in the domestic market. To mention a few initiatives like protection lead incentive (PLI), which is mainly to promote MMF apparels and garments, RoDTEP, RoSCTL and mega textile parks.

These stimuli have perked up demand and are likely to lead to fresh investments. It is high time that we look beyond domestic market and looked at global perspective to catch up growth rates and trends. Let me give you a global perspective of polyester in textiles.

The global polyester filament market is projected to grow at the rate of 5.1% CAGR. The significant growth in the use of polyester in textile industry including apparel and home furnishing and growing demand for polyester filament yarn in manufacturing of automotive textiles are some of the prominent factors driving the polyester filament market revenues.

The demand for both, DTY (drawn texturized yarn) and FDY (fully drawn yarn), is growing in the textile industry. The demand for polyester filament in textile industry is expected to witness healthy growth. The textile industry is creating strong demand for polyester filaments which have the ability to substitute cotton yarn to some extent. With cotton yarn prices at relatively higher levels, the demand in sales of polyester filament yarn is constantly rising. End use industries will increase the proportion of polyester filament yarn used in the products with an aim to control costs. Polyester Filament has its application in various end use industries, including textiles, automotive, healthcare and others. Due to the extraordinary properties of polyester filament, manufacturers are mostly preferring it for

making protective clothing facets. The ease of its usage and a wide range of industrial application are the primary factor behind the overall market growth of polyester filament.

Also, polyester filament is cheaper than its substitutes like nylon, cotton, etcetera, which makes it a more suitable material to be used for several applications. The rapid increase in the dope dyed polyester adopted by the automotive and textile industry had translated into a significant increase in demand for polyester filament, in turn, driving the overall market growth.

The future of textile manufacturing is at an inflection point. Global production of textile and apparel has rapidly increased over the last decade, which has led to generation of large amount of textile waste. Polyester, owing to its affordability and versatility, is the preferred and most dominant fiber.

To ensure sustainability and reduce environmental impacts in the textiles and apparel industry, utilizing sustainable and circular economy model is of utmost importance. As mentioned before, we had initiated in-house research work on chemical recycling of polyester waste in all forms.

After extensive research and trials, we now have moved to the next stage and are setting up a pilot plant of 1,500 kgs capacity per day. This plant is likely to go on stream by April 2022. In this pilot plant, we will be able to re-validate our process parameters and more accurately compute cost of production for recycling. We have already started planning for 100 tons per day plant, which will go into execution phase after successful trial of smaller 1,500 kgs per day pilot plant.

Sustainability in the textile and clothing industry has gone beyond just using organic materials and efficient processes. Recycled fibers are fetching a hefty premium. The pressure on international brands is high as these brands and retailers are increasingly being held accountable for what happens throughout the value chain.

Coming back to update on our manufacturing facility, we had commissioned over 30 MW captive power plant. High prices of coal, steep freight rates and erratic shipping schedules have put a huge strain on coal users like steel plants processing of power plants. After having run our plant for several weeks we had stopped generation from captive power plant from 29th October. With some ease rise in availability of coal we have started generation from 11th Jan 2022.

The work on our planned project of debottlenecking melt capacity of 50 tons per day and manufacturing line of 120 tons per day POY is progressing well. We are targeting to complete the installation and commissioning activities by June 2022.

To sum up, as mentioned earlier, our capacity utilization is almost 100% in case of yarns. The demand is good, and the cash flows are steadily increasing. On the strength of strong cash flows we are reducing our debt and the cost of capital. As you may be aware, we have been able to release the pledged shares.

The future prospects of polyester filament industry after several sequential disruptions, like demonetization, introduction of GST and the havoc caused by shut down to control Covid, look bright. As ever, we are confident and buoyant about the prospects of our company. Thank you for listening. I am all yours for responding to your questions. Thank you.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin the question-and-answer session. Our first question is from the line of Sudhir Bheda from Right Time Consultancy. Please go ahead.

Sudhir Bheda: Sir, my questions are like, I believe that going by your result, I believe that you will be generating close to Rs. 900 crores of cash in the next two years and with the expansion plan if whatever you have narrated, it will not take more than a couple of Rs. 100 crores, Rs. 200-300 crores. So what is your plan going forward to utilize the cash generated over the next two years?

Madhu Sudhan Bhageria: You are right. Maybe in the next couple of years we will have cash flows of around Rs. 800 crores to Rs. 900 crores. Out of that we have planned to use at least Rs. 300 crores. But we are also planning to put up more facilities.

We have planned on paper for that, but we are just waiting for the Covid to subside substantially world over and the world to open up. So that plan we would require investment of around Rs. 1,000 crores to Rs. 1,200 crores. We have also identified a new piece of land and are in talks with the Maharashtra Government also to get the benefits. So once the things are clear, we will take that into execution.

Sudhir Bheda: So it will be a Greenfield plant?

Madhu Sudhan Bhageria: It will be a Greenfield project because now lots of incentives are available if it is a Greenfield project and it will be in a subsidiary company. It is really a subsidiary.

Sudhir Bheda: Tax benefit also?

Madhu Sudhan Bhageria: Yes, so lots of tax benefit and other incentives are only available if it is a new entity.

Sudhir Bheda: And the recycling plant which you are envisaging at 100 tons per annum, also will be putting in that facility, or it will be like other?

Madhu Sudhan Bhageria: Yes, it will be in the same facility.

Sudhir Bheda: Okay. And sir, my other questions are like your EBITDA margin is quite high this time, so it is a bump up we have seen due to commodity prices or it is a sustainable kind of margin which we want to be generating over next financial year?

Madhu Sudhan Bhageria: I think it is a sustainable margin. I cannot say, see maybe 10% here and there can always happen. But by and large it is a sustainable margin as a bottom line. The top lines can change in our industry as I have been saying because of the raw material prices. And because of sometimes the product mix also. But EBITDA we should be able to sustain somewhere close to this what we have got in this quarter.

Sudhir Bheda: And sir lastly, what is the volume guidance for next year as we are going for some 120 ton per day plant?

Madhu Sudhan Bhageria: Yes, so that 120 tons will be operational by June end. And the first quarter after maybe we will get around 75% of the production and then after that we will have a full capacity into production.

So within only three to six months, we are able to ramp up to full capacity and we are able to market that. Normally it takes 3 months, but sometimes the market is not very conducive. It can take up to six months. That is all. Within that time, we will add up to our next year's volume.

So next year we should be doing roughly around 88,000 tons to 90,000 tons per quarter plus this 120 tons means 3,600 tons will get added from the second quarter of next financial year.

Sudhir Bheda: Great so 92,000 tons to 93,000 tons would be our run rate as far as the second half is concerned of the next year, right?

Madhu Sudhan Bhageria: Yes, next second half we should be able to do 92,000 tons to 93,000 tons consistently.

Moderator: Thank you. Our next question is from the line of Niraj Mansingka from White Pine Investment Management. Please go ahead.

Niraj Mansingka: I just wanted to clarify on the CAPEX that is ongoing, right now your only additional CAPEX for polyester DTY plant 120 tons per day, right?

Madhu Sudhan Bhageria: No, I am putting a CAPEX for POY, additional plant and some debottlenecking in the polymerization. So that is around Rs. 130 crores. Plus, we are spending some more money on creating more stocking facility, so that is another around Rs. 15 crores and we are also

spending some Rs. 8 crores or Rs. 10 crores in Silvassa plant to modernize some of the lines and increase their productivity.

So overall our total CAPEX is around Rs. 160 - 165 crores. And then we will be doing another CAPEX, once this recycling project is cleared by our team and they are more confident, so that should happen by June. And then we will be spending around Rs. 150 crores for the recycling project.

These two are firmed up and the second, which I have told about a bigger Greenfield project that we will take a call once we are pretty sure that now there should not be any more disruption and we can be more sure. So then we will take up. We already have our road map on paper, what we need to do and what we want to do.

Niraj Mansingka: But you are not expanding DTY capacity?

Madhu Sudhan Bhageria: DTY as of now we are not expanding because DTY margin as of now are not very good. So this POY we will initially sell in the market. As and when we feel DTY margins are improving then we can put more DTY. We like to put DTY also along with the new project so that we can get more benefits from the government rather than putting here, we will put it at the new location.

Niraj Mansingka: Yes, some numbers I wanted to get from you in terms of the gross margin or EBITDA margin whatever you crack. Can you relate the gross margin or EBITDA margin for the DTY, FDY for the quarter?

Madhu Sudhan Bhageria: DTY margin have been pretty bad. I mean from POY to DTY margins, EBITDA has been hardly Rs. 2-3 in this quarter. So that is why we just postponed our decision to put more DTY machines.

So POY has been around Rs. 15 per kg. And FDY would be in the vicinity of around Rs. 20 per kg.

Niraj Mansingka: This is you are talking about EBITDA or you are talking about gross margin?

Madhu Sudhan Bhageria: No, I am talking about EBITDA not gross.

Niraj Mansingka: And how were these number for a quarter back, the POY to DTY spread and the FDY margin in Q2?

Madhu Sudhan Bhageria: You mean in the second quarter?

Niraj Mansingka: Yes, during the quarter?

Madhu Sudhan Bhageria: Second quarter I think DTY was similar or maybe a Rs. 1 more and POY and FDY were Rs. 2-3 lower than what got in this quarter.

Niraj Mansingka: And the POY also was lower?

Madhu Sudhan Bhageria: Yes, POY also slightly lower in the second quarter.

Moderator: Thank you. The next question is from the line of M. S. Rajshekhar, an individual investor. Please go ahead.

M. S. Rajshekhar: My question is on the quarter-on-quarter your sales quantity has been almost the same 90,000 metric tons versus 90,000 metric tons. The revenue has gone up, basically because of better product mix or because the selling prices have gone up?

Madhu Sudhan Bhageria: It is a combination of both. The product mix like chip sales have been almost very, very low in this quarter compared to last quarter. So that has made the difference. And also the prices have gone up. So the average realization has gone up by at least Rs. 10 - 11.

M. S. Rajshekhar: And is this price realization sustainable according to your view?

Madhu Sudhan Bhageria: Yes, these are quite sustainable because this has been the increase in price is not only because of the margin, it has also been because of the increase in the raw material price.

M. S. Rajshekhar: Regarding your recycled polyester that you are going to put up a 1,500 kg plant. This is going to be operational from June, correct?

Madhu Sudhan Bhageria: No, this will be operation in April only. June I was talking about my POY expansion that will be operational in June. So this 1,500 kg will be operational in April and then we will have 2-3 months of extensive trials, which will revalidate whatever we have thought. And once that is revalidated, we will go for a bigger plant.

M. S. Rajshekhar: Okay, revalidation means you will be giving these polyester to the?

Madhu Sudhan Bhageria: It is whatever experiments we have done on the smaller plants, so this is a bigger plants where it will be much more practical and we will have an idea how much energy, how much waste and different things, and the quality wise also and this quantity will not so small. We can do some seed marketing, we can make yarn and fabrics out of it also.

M. S. Rajshekhar: Yes, you can make some yarn and fabrics and then give it to your end customer, correct?

Madhu Sudhan Bhageria: Yes, see what is the quality, what more improvements needs to be done based on that we will make the big plant. So any changes in the technology we need to do so all that we will be able to do it in this plant.

M. S. Rajshekhar: Okay, once you are successful with this plant, is this going to be a big turnover for filatex?

Madhu Sudhan Bhageria: No, it is not a big turnover. But it is a big change because we will be using waste as a raw material for this plant. So, all different kinds of polyester waste will be used to make polyester. And there is a huge premium on these products because all the branded industry the fabric, sorry garment industry, they want recycled yarn and fabrics made out of recycled yarn and they are willing to pay a huge premium for that. And these yarns are not available in the market as of now.

M. S. Rajshekhar: Are there not many players in this industry for this recycled yarn?

Madhu Sudhan Bhageria: But this is a very, very new technology, so very few people are able to do it and still everybody is more on a developing stage of this technology. This is hardly a four year backed phenomena. Out of this 4-5 year back, two years have gone in Covid; people have not been able to do much in this. So it is a very new phenomenon which had come in the market.

This is chemical recycling. Normally mechanically people are making fibers, but this is chemical. In this we are able to take out the impurities which are inside the waste also not on the surface. So, anything which is embedded in the waste we are able to take it out. So all these brands like Uniqlo, Patagonia and various other big brands they want to switch to 100% recycled material by 2025 if available. So there is a huge demand and they are willing to pay a huge premium for these products.

M. S. Rajshekhar: This could be a changer for Filatex, correct?

Madhu Sudhan Bhageria: Yes, this will be a game changer for us and going forward then we would like to invest in this more by putting more plants for this in various locations where the wastes are available. Rather than going into the conventional thing, we would like to expand more into this going forward.

So this will be unique to us and we will have our own technology which we have already applied for patent. So we will have our patents on this technology.

M. S. Rajshekhar: My last question is, in your last conference call, you told that you have developed new fibers. But you were not able to put it in the market because of COVID. Now have you been able to market your new generation of fibers?

Madhu Sudhan Bhageria: Yes, we have started marketing of that. These are the filament yarns which we give different treatment and they give a different effect in the fabric. So we have started that and hopefully we should get good results.

M. S. Rajshekhar: Your exports are only 11% of your turnover, correct?

Madhu Sudhan Bhageria: Yes, export size I explained in my thing that because of the high freight cost and availability of containers and all disruptions, the exports has been slightly lower.

Moderator: Thank you. Our next question is from the line of Vikrant Kashyap from K. R. Choksey Research. Please go ahead.

Vikrant Kashyap: I am just dwelling on the recyclable plant questions from the previous participant. Sir, could you, through some more lights on the prospect of the yarn in the domestic business? So you are talking about international market where the big players are kind of looking at recyclables. But do we see the similar demand or similar market in domestic market?

Madhu Sudhan Bhageria: So demand is there in the local. What I am saying these brands are sourcing their products from India also. So people who are making garments and fabric for these products would buy from us and make and give it to them. So, these buyers are prescribing that they want fabric, which should have like 50% or 100% recycled yarn.

But since they are not able to source, they are not able to give it to them. So, we will be supplying to local producers only who are in turn giving the products to these sub buyers.

Vikrant Kashyap: Okay, so it will be a distributor lead model that we are following and this player will supply to the international players?

Madhu Sudhan Bhageria: No, it is not distributor lead. Like if somebody is making a fabric, so we will sell it to him and then his fabric is then used for making garments being supplied to let us say Uniqlo or Patagonia or Zara, or people like them. So ultimately it goes to them but the change till the garment manufacturing is based in India only.

Vikrant Kashyap: Okay. And sir, given the current pricing scenario for recyclable, so how much spread we will get and what benefit it will add to our EBITDA or maybe say PAT margins?

Madhu Sudhan Bhageria: Right now, the margins are pretty steep. Like our normal yarn if it is Rs. 110 a kg, the same yarn if it is recycled then it is fetching anything from Rs. 170 to Rs. 180 a kg. And the manufacturing cost is very similar to the virgin what we are making at Rs. 110. So you get an additional Rs. 50 margin in this product.

Vikrant Kashyap: And does this require customer approval?

Madhu Sudhan Bhageria: No, there is a certifying agency who will certify the process that yes we have made it from the waste, so that is a certifying agency. So they will certify the process and then give us a certificate that this yarn has been produced through waste recycling.

Vikrant Kashyap: Sir, on the other thing in the last couple of quarters, if we see the trend, the realization per trend for our company has improved on the blended basis. So given the challenging environment, we have seen raw material prices going up and there is also prospect of going up further in the coming quarter or two. So, do you see the spread maintaining at this level or improving further?

Madhu Sudhan Bhageria: Yes, I feel that we should remain at these levels. Maybe see the January month was a little dull because of high Covid rate in the country and some lockdowns, but now every state has started lifting the lockdowns. So going forward we feel it should be much better.

One thing you can see is, even though the raw material prices have increased, we have been able to increase slightly more than the raw material prices. So that it is very easy to pass on the raw material prices in our industry.

Vikrant Kashyap: Okay, so there is no stress on the margins?

Madhu Sudhan Bhageria: No, there is never a stress in the case the raw material prices are going up. Only when the raw material starts falling, there is a stress because the buyers back out and tries to wait for the bottom. So, then there is sometimes stress, but if they are going up or they are steady, there is never stress.

Vikrant Kashyap: Other questions sir, our product mix or value added is 80%. And you are not coming up with DTY or maybe FDY parts in near future. Mainly focusing on a recyclables. So does this spread expected to remain at 80% till the recyclable plant comes in?

Madhu Sudhan Bhageria: Yes, it will remain at these percent. We are adding more POY so maybe it will go down by 2%, 3% because POY portion will increase and DTY FDY will not increase. But eventually we plan to put DTY. We have just postponed it by one or two quarters the decision. And we will put it in the new facility. So, eventually we will have more than 80%. But yes, for some time it can drop little bit.

Vikrant Kashyap: Sir, on the coal plants we have seen since our commissioning of the plant, we have some “stop and go” kind of thing due to the raw material pricing scenario for coal business. This is a coal pricing scenario, but does it impact on our financial position of starting and again stopping the plant. Does it hurt in anyway?

Madhu Sudhan Bhageria: No, there is not much cost on starting and stopping. Only thing is we are not able to get the gains what we should have gotten from the captive plants so far. Because we do not want to run the plant at a loss, because the coal prices have gone very high and they came down in December. But then again, there are some issues with Indonesia. They had stopped the exports for some time.

Now they restarted, so maybe in a month or so again the prices would come down. But we have some inventory which we can take care till March mid. So let us wait if the prices do not come down by mid Feb, then might have to take a shutdown again, but there is no major cost for starting and shutting down.

Vikrant Kashyap: My last question is on CAPEX book side. You mentioned that there is a good opportunity in the market, but due to shipping and other related cost in the global market, we are not competing to the Chinese players. So are we facing a lot of competition from Chinese players or this is how that the current scenario has created a kind of dent to our positioning?

Madhu Sudhan Bhageria: See normally we do not face much problem, but for sometimes we are seeing that the freights from China are slightly lower to certain countries, especially South America and America. So there they have been more competitive. Otherwise it is normally we are quite competitive against China. So, this is a phenomena for a short term, I would say because they are sending goods in some refrigerated containers, which they get very cheap because there is inward is there and outward they are going virtually empty. So they are getting it exceptionally cheaper at this moment.

But otherwise cost of production wise, we are quite competitive with China. We do not have any issue in fact.

Vikrant Kashyap: So by the time the shipping issues or related issues goes away you will be?

Madhu Sudhan Bhageria: Yes, but still. I mean we are exporting. We have exported around 10%, 11% of the turnover. But normally we would do around 15%, 16%.

Moderator: Thank you. Our next question as a follow up from the line of Niraj Mansingka from White Pine Investment Management. Please go ahead.

Niraj Mansingka: Few questions, sir. One, what are the various regulations from the government which is needed or is left to have some more impact on the margins like in the past removal of anti-dumping duty or so all those import duty etcetera. So, what are the various other regulations which you think are a potential tailwind for the industry?

Madhu Sudhan Bhageria: See the anti-dumping duty was removed in 2020 Feb.

Niraj Mansingka: Yes, that was a tailwind but is there anything forward looking you see any regulation that can help?

Madhu Sudhan Bhageria: I do not see. Only one problem we have is we have an inverted GST, which we are already talking to the government to correct. Rest I do not see. There is an anti-dumping duty investigation for MEG going on, but I do not think so government is going to put any anti-dumping duty on the raw material even if the investigation finds it so because a lot of anti-dumping duty if the investigating authority has even recommended, the Finance Ministry has chosen not to put it in the interest of the larger industry.

So the government is these days not putting anti-dumping duty on raw materials because they have realized if they put anti-dumping on the raw material then the downstream industry will not develop and right now government is putting too much of thrust on developing man made. So there is no way I think this will happen and this inverted GST also is likely to get corrected, maybe in another quarter or so because government has recognized this, but there are lot of agitation this time so they had to backtrack. So hopefully in a quarter or so after the elections they should be able to do it.

Niraj Mansingka: How is the impact of your demand for the products change with the inverted GST?

Madhu Sudhan Bhageria: No, the amount will not change. Only thing it will save us from cost. Our money gets blocked in the GST which we get refund later on and some of the things we are not able to get full refund. So it is a credit lying with us, like capital goods and some services which are not getting refunded. Otherwise it is not having any material impact. Of course it puts some stress on the working capital, that is all.

Niraj Mansingka: And on the industry outlook where do you see going forward the growth coming in terms of the customers? I mean the garment manufacturers or the domestic market or is it? Just trying to understand the growth in consumption is either due to garment exporters or due to the domestic market?

Madhu Sudhan Bhageria: I think there will be very good demand in the local market and the price realization in the local market should out do the exports because there is lot of expansion happening in the downstream in India, which will create a lot of demand for the yarn. So there is not much expansion happening on the yarn side. So, it will create a very good margins for us going forward. Maybe exports get declined because if there is huge demand in India and you get a better price in India, why we need to export?

Niraj Mansingka: And what is the order cycle time like if you order for a new plant which you are talking of large CAPEX of Rs. 1,200 crores?

Madhu Sudhan Bhageria: Anything from 21 months to 24 months, once you have the land.

Niraj Mansingka: After you have a land?

Madhu Sudhan Bhageria: Yes, land and something we do not know how much time one would take, but once you have the land and then around two years is a reasonable time to put up the plant.

Niraj Mansingka: So it is quite outward in terms of your requirement for CAPEX because and definitely you do not required to be CAPEX for that product for year-and-half to or maybe a year definitely from now. Is it right assumption?

Madhu Sudhan Bhageria: Sorry, can you repeat? I could not get it?

Niraj Mansingka: Is it a right assumption that a year or year-and-a-half from now the CAPEX of that Greenfield project will start if it goes right not before that?

Madhu Sudhan Bhageria: Yes, within next two years I do not think any Greenfield project will come because there has been no orders for any new machinery, this we are quite sure. Only one plant at Bhilosa Industries, which got burnt in February 2020. So they had ordered the machine so that would get operational by somewhere around September this year.

So that is around 600 tons, 700 tons per day, which is around 5% of the capacity. The rest there is no big expansion coming in for next two years at least.

Niraj Mansingka: Okay, yours will also take three years from now? Is it a fair assumption?

Madhu Sudhan Bhageria: Yes, even if we want to do, we would be operational not before mid 2024.

Niraj Mansingka: Right, so in terms of your cash flows while your cash flows are so strong and the CAPEX requirements are also not large. So do you think you should reward shareholders with dividend or some buyback?

Madhu Sudhan Bhageria: Yes, we are planning to reward the shareholders and mostly depending what the budget gives the picture after the budget we will see. So it could be a buyback or dividend, whichever is more tax efficient.

Niraj Mansingka: Okay, so I would suggest to do a buyback because for shareholders it is quite tax friendly.

Madhu Sudhan Bhageria: Yes, as of now, if there is no change in the position by the government, it will mostly be a buyback.

- Niraj Mansingka:** Last question on the margins for polyester you were planning to do a chemical processing, but can you give some color on the margins or the prices for your mechanical process in polyester filament yarn?
- Madhu Sudhan Bhageria:** See mechanical polyester filament yarn, very few people there is hardly any production in India. Only mechanical recycling is happening in fibers, so there I think the margins are roughly wavering from Rs. 8 to Rs. 10 a kg EBITDA.
- Niraj Mansingka:** Okay. So you do not plan to move to that modality of making mechanical polyester fiber?
- Madhu Sudhan Bhageria:** No, I do not plan to move because we are developing our own technology and we are very sure about it and it'll be very unique to us. So, we would rather concentrate on something which will be unique to us and where we can get very good margins. Even let us say today the margins combine maybe Rs. 70 a kg, but even going forward if they reduce still we can get Rs. 30.
- Moderator:** Thank you. Our next question is from the line of Piyush Mehta from Caprize. Please go ahead.
- Piyush Mehta:** The first question was on what is the current debt level and the working capital cycle?
- Madhu Sudhan Bhageria:** Today, our debt level term loans are roughly around Rs. 450 crores. And, our working capital cycle is around 45 days, roughly 45 days to 50 days max.
- Piyush Mehta:** Okay, and do you see any change in trend on that one?
- Madhu Sudhan Bhageria:** Working capital cycle, I do not see much trend. Maybe four, five days here and there depending on the time, but never going beyond 60 days.
- Piyush Mehta:** We mentioned the additional capacity coming on the POY expansion. So, once that is up and running, what is the additional revenue that we can generate from that?
- Madhu Sudhan Bhageria:** That will be roughly.
- Piyush Mehta:** The reason I am asking this question is we are at 100% capacity. I believe we could at best do 105%. Maybe you know capacity?
- Madhu Sudhan Bhageria:** Yes, see the yarn side we are 100%. Chip side we do not do full capacity utilization because the margins in chips is very, very poor. So, that we do not do much.
- Piyush Mehta:** What could be the additional revenue generation?
- Madhu Sudhan Bhageria:** Maybe yearly basis it can be close to around Rs. 500 crores.

- Piyush Mehta:** Okay, and on the recycling plant that we talking about the Greenfield expansion plan
- Madhu Sudhan Bhageria:** Yes, once the big plant is commissioned, I think that will also fetch another Rs. 400 crores to Rs. 500 crores of revenues. But the EBITDA expected is quite high. There the EBITDA could be upwards of Rs. 100 crores in that Rs. 400 crores.
- Piyush Mehta:** Okay upwards of Rs. 100 crores. Okay, so we will be expecting like 25% margins on that business?
- Madhu Sudhan Bhageria:** Yes.
- Piyush Mehta:** So we will be investing about Rs. 1,000 crores, Rs. 1,200 crores on that?
- Madhu Sudhan Bhageria:** No, in that we are investing only Rs. 150 crores.
- Piyush Mehta:** In the recycling bit?
- Madhu Sudhan Bhageria:** Recycle, because we are just doing a partial. From the waste we will make polyester chips and from those chips the yarn we can make in the existing facilities. So, we are not investing as of now on the yarn side.
- Piyush Mehta:** Okay. So the next two years just to be?
- Madhu Sudhan Bhageria:** But if that is successful then we will put up that Rs. 1,000 crores that I am talking about a big plant where the poly condensation and things what we are doing today we will be able to do more. It had nothing to do with recycling. So recycling will take 1.5 years and our cash generation till that time we will have huge cash generation so we can do both the things together.
- Piyush Mehta:** So basically, over the next two years, the only capacity expansion that is happening is to the tune of to Rs. 250 crores to Rs. 260 crores while we will be generating Rs. 900 crores?
- Madhu Sudhan Bhageria:** Yes, so that is what I said. So maybe by June we would take a decision to invest another Rs. 1,000 crores in a Greenfield projects to increase more capacity. So, we will increase our capacity by another 200,000 tons by putting a more poly condensation POY, DTY, everything.
- Piyush Mehta:** So that basically means we could increase our capacity by another 50%?
- Madhu Sudhan Bhageria:** Yes. And that decision of course we on paper we have everything ready. But we are not committing anything yet as of now. Once we are more clear about how things are worldwide, then we will take a plunge.

- Piyush Mehta:** Okay, so that is the reason you spoke about?
- Madhu Sudhan Bhageria:** So, there we will need to raise some debt also.
- Piyush Mehta:** Okay, so that is the reason you mentioned that over the next two years with these kinds of cash flows we could do a dividend or a buyback?
- Madhu Sudhan Bhageria:** Yes, so till that time we will reward the shareholders with some buyback or dividend, let us see whichever is a better option.
- Piyush Mehta:** And what was the timeline which you mentioned in terms of the pledge shares? When would you be able to take care of it?
- Madhu Sudhan Bhageria:** No, pledged shares are already released. I think in October somewhere we released in November, 5th November we released. All the shares have been released.
- Piyush Mehta:** Okay. And what is the raw material procurement pattern as of today?
- Madhu Sudhan Bhageria:** Raw material, as of now we are importing around 30% but going forward our imports would increase more because what has happened is our main supplier Reliance, they have taken over a few local plants. So now their captive consumption has gone very high.
- So, what Reliance produces raw material they are using 70% almost captively means with these plants and their own plants. So only 30% they are marketing. So if they have any disruption so they cut the supply of the 30%. So we are reducing dependence on them and increasing more on imports because locally there is no other supplier. Whatever IOC is there, they are also tied up.
- Piyush Mehta:** So what could be the price differential and is it easily you can usually pass that on?
- Madhu Sudhan Bhageria:** It is easily available, but the price differential is not much. Nothing significant, maybe Rs. 200, Rs. 300 a ton, sometimes costlier, sometimes cheaper. And we will also maintain a slightly higher levels of inventory so that there are no disruptions going forward.
- Moderator:** Thank you. The next question is from the line of Sudhir Bheda from Right Time Consultancy. Please go ahead.
- Sudhir Bheda:** Just a quick, very simple question. The increase in interest in Q3 is much higher than Q2 actually. What is happening there?
- Madhu Sudhan Bhageria:** This is because of some provision on the currency loss because of the fluctuation in the currency on the term loans. We have some term loans of euro, so if the euro prices changes,

you have to provide for that loss and this quarter we had some gain. So that is the main reason.

Sudhir Bheda: So what could be the onetime expenses in that?

Madhu Sudhan Bhageria: What do you mean by one time? There is no one time like?

Sudhir Bheda: One time means it is not recurring like non-recurable.

Madhu Sudhan Bhageria: But every quarter there is like supposing like in first September the currency was Rs. 88 and now on December 31st, if it is Rs. 86, so you have to book Rs. 2 as a profit and then your interest costs would go down.

Sudhir Bheda: Understand. What is absolute interest like on the loan and what would be that component?

Madhu Sudhan Bhageria: Absolute interest on the foreign currency portion is around 1%. And local, we are paying around 7.5% to 8%.

Sudhir Bheda: And what would be the net at the end of?

Madhu Sudhan Bhageria: This is roughly 50:50. Right now, our mix of rupee loan and foreign currency is 50:50. So blended we are paying 5% plus whatever the currency profit or loss we have.

Sudhir Bheda: And what is the guidance of that as of March 22 at the year end?

Madhu Sudhan Bhageria: March 22 I think total debt should be close to little less than Rs. 400 crores we should close.

Moderator: Thank you. Our next question is from the line of Arvind, an individual investor. Please go ahead.

Arvind: Sir, there are two questions. One is on the raw material side. It seems the pressure is significantly lower on a sequential basis. So, can you throw some light over there?

Madhu Sudhan Bhageria: What do you mean by pressure is lower on this raw material?

Arvind: Your realization, your gross profit has improved sequentially on per kg basis?

Madhu Sudhan Bhageria: But the prices of raw materials have also gone up sequentially. See I just give you some idea where the major raw material price in. Yes, so Q1 our price of PTA & MEG combined which we use for one KG was Rs. 68.33. Then Q2 it went to Rs. 73.04 and Q3 it went to Rs. 77.56.

Arvind: So how much it went in Q3?

Madhu Sudhan Bhageria: Prices have been going up. You have seen the crude prices going up. So, raw material prices not fully in line, but they follow somewhat crude prices.

Arvind: So, despite that you are saying, your sequentially gross profit per KG has seen an improvement?

Madhu Sudhan Bhageria: Yes, that is the factor of more demand and supply. So if I am able to pass on the price of the increase in raw material plus something extra also then some portion is also because of the stock gain. So you are carrying a normal stock with you always and if your prices are moving up the cost of the stock which you are carrying goes up. I mean the value of the stock so that also is reflected in the profit. Some portion is also because of that.

Arvind: But your raw material costs what is general lag for you? Is that a quarter lag or it is a month lag? Whatever the spot prices, when did it start getting reflected for that?

Madhu Sudhan Bhageria: Locally the prices are very dynamic. Every week the prices change and in imports it is lagging by one month.

Arvind: And on inventory side generally, what kind of inventory you have?

Madhu Sudhan Bhageria: See in the plant we normally have raw material of around week to 10 days. And, I think a few days of work in progress and finish goods normally varies from 6-7 days and once we had more than 20 days also. But normally we have 7 to 10 days of finished goods.

Arvind: Second question was if I read through your commentaries on your capacities, effectively we are talking of a low single digit growth adjusted for the base Q1. So for Q2 onwards it would be low single digit growth on volume for us because we are anyway touching 88,000 to 90,000 MTPA and you are indicating reaching up to 90,000 to 93,000 in second half of next year. So is it a right assessment?

Madhu Sudhan Bhageria: There will not be much growth in the volume side. Because already we are doing almost full capacity utilization, so there cannot be a growth until as we put new capacity. The new capacity which we are putting would get operational only in June 2022. A very, very small portion in Silvassa might get operational by March end or April but that is very small, maybe 7 tons, 8 tons per day some modernization which we are doing in that.

Arvind: So how does the product mix help you increases if volume is not there and if you then the focus should be on product mix, right so that your revenue growth?

Madhu Sudhan Bhageria: We keep changing our product mix and see which products can give a higher margin. So, we keep trying to produce more and sell those products more. So that is a constant exercise.

Arvind: And in 2024, if I have to look at your volume capacity, how should we look at it? What kind of capacity would come in 2024 for you?

Madhu Sudhan Bhageria: See 2024 is too far off. Maybe if we put that Greenfield project the capacity could go beyond 0.5 million tons.

Arvind: Sir, why is that before 2023 we have not planned in advance for a slightly higher capacity given the underlying strong demand, a tailwind that is there? So why were we conservative? What was the thought process?

Madhu Sudhan Bhageria: Because of this Covid we have not planned much and we are now basically targeting more to invest in the recycled thing. That is why may be for some time we will not be able to invest much. But our main focus is to work on recycled and then going forward grow in the recycle side more. Because that will be very unique to us rather than we remain only in the commodity. So that will take us out of the commodity race and it will be very unique feature for Filatex because none of the companies in India are doing at the moment.

There is a small company, Polygenta which used to do and they are doing only 20 tons per day and they are also trying to expand more so and very few companies in the world are doing this. So we would like to invest in something which will be unique to us and nobody can copy that or do that same thing.

So, we do not want to put same commodity more if we are able to do that successfully, which we will know by maybe June max. So we would rather like to wait then invest. And now the world is also see going to sustainability.

So everybody is looking and I think once this Covid is over, government in India is also going to make some regulation where people who are producing polyester and other thing should do some recycling and work towards the sustainability.

Arvind: Sir, once your pilot plant you are comfortable with the output and the efficiency of pilot plant, what is the next thought process? What will be the next leg of capacity addition you would look at?

Madhu Sudhan Bhageria: So that is like I said, 100 tons per day plant we will put up and that would take another 12 to 15 months. So, maybe at best by 23 September we should be in production with that plant and once we are successful with that then we can put similar plants in multiples. It is not necessarily put one plant. We can put 5 plants, 8 plants wherever and it can be at various location where the waste is available inside India or outside India also.

- Arvind:** Okay, so one last question on PLI. I do not know whether you have the information, but on the PLI is it possible to indicate that it is because it is for the entire man made chain different type of underlying?
- Madhu Sudhan Bhageria:** It is mainly for man-made fabrics, fabrics made out of man-made yarn and garments and processing house. These are the three major thing and technical textiles. So making of manmade yarn is not a part of it.
- Arvind:** I know that. But sir, what I am trying to understand is polyester based fabric, is there any indication how big capacities could come across? Because that entire scheme is available for all type of manmade fabrics, right? And we are only focusing on the polyester side?
- Madhu Sudhan Bhageria:** Manmade, the biggest share is of polyester only. Worldwide I think almost 85% is polyester in manmade. We will be putting polyester mainly.
- Arvind:** Okay. Because I was reading some conflicting articles over there, so I thought I would just ask you on that?
- Madhu Sudhan Bhageria:** You will see that it will be majorly usage of polyester because that is the most durable and cheapest yarn available and there is huge demand for that. Now lot of properties we have been incorporated in this yarn which can give a different comfort what you get from natural and other fibers. Like all your sportswear is now polyester filament yarn instead of cotton. All these dry fit and other products.
- Arvind:** Is there any clarity that when those capacities are coming up, etcetera and because that will have a direct impact on you?
- Madhu Sudhan Bhageria:** I think it will take at least 1.5 to 2 years for those capacity to be operationalized. Right now only the registration has started. Now people will and it has to be a new company so it will take at least 1.5 to 2 years for them to come into production.
- Moderator:** Thank you. Next question is from the line of Forum Makim from Equitree Capital. Please go ahead.
- Forum Makim:** What is the kind of raw material that we have been using for the pilot project? And where would we be sourcing it from?
- Madhu Sudhan Bhageria:** Yes, this raw material like we can use our own waste, which we are generating in the plant, and also we can use the pet bottle waste.
- Forum Makim:** So the uniqueness lies in the technique of production and not the raw material waste used?

Madhu Sudhan Bhageria: No, the uniqueness lies in the technique where we are able to take out impurities which are inside the product. Surface people clean the surface, wash the thing and then melt it and use it.

We are going to melt it and take out the impurities which are inside them like colors and other metallic substances. That we are able to take it out and then re-polymerize the yarn and bring it very close to the virgin. So other than the color part of it may be the color in our case would be a little not so white. Rest all properties will be very similar to the virgin material.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the floor back to the management for closing comments.

Madhu Sudhan Bhageria: Yes, I would like to thank all the participants for sparing their time and attending our call. Thank you very much.

Moderator: Thank you. Ladies and gentlemen, on behalf of KR Choksey Research, that concludes this conference. Thank you for joining us and you may now disconnect your lines.