



FIL/SE/2021-22/56
15th November, 2021

National Stock Exchange of India Limited
Listing Department
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Bandra-Kurla Complex, Bandra (E)
Mumbai-400 051
Security Symbol: **FILATEX**

BSE Limited
Listing Department
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Security Code: **526227**

Sub.: Transcript of Conference Call on 12th November, 2021

Dear Sir,

This is in continuation to our letter No. FIL/SE/2021-22/54 dated 10th November, 2021 on the Q2 & H1 FY22 Earnings Conference Call on 12th November, 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

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“Filatex India Limited Q2 & H1 FY22 Earnings
Conference Call”

November 12, 2021



Management:

Mr. Madhu Sudhan Bhageria – Chairman & 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 Q2 FY22 Earnings Conference Call. As a reminder, all participants' lines will be in the listen-only mode. 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 touch tone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Madhu Sudhan Bhageria – Chairman and Managing Director of Filatex India. Thank you and over to you sir.

Mr. M S Bhageria:

Thank you. Good day to all of you. Once again, a warm welcome to all of you attending this earning call for the quarter ended September 2021. I hope all of you are safe and are maintaining all necessary precautions to contain COVID. An old adage 'an ounce of prevention is worth a pound of cure' holds good in containing this pandemic. Though the fear of the third wave has not vanished, we are back to business as usual as the skilled workforce has come back from their native places. Public transportation has been restored close to a normal, in a graded manner. Restriction on hotels, flights and leisure travels have revived after easing the restrictions. With prayers in our hearts and COVID appropriate behaviour (CAB), we hope there is no third wave causing disruption to our daily lives and business activities.

Coming back to business matters. I presume you would have certainly 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 second quarter of FY2022 has been better than the first quarter, both in terms of top line and the bottom line. The slowdown effect due to second COVID wave has gradually waned.

Let me quickly go through the results of this quarter. We achieved a production volume of 88,900 metric tons, which is around 93% of our capacity. As compared to Q1 FY22, the production is 14% higher in this quarter. The revenue for the quarter is Rs. 965 crores which shows a growth



of 38% over Q1 FY22. The operating profit EBITDA is around Rs. 125 crores, a growth of around 24% over the preceding quarter. Profit before tax is Rs. 110 crores which is an increase of around 41%, and net profit has increased by 42% to Rs. 74 crores. As evident from the numbers, the performance is quite remarkable when compared to first quarter of this financial year. In this quarter, also we are not comparing financial results on a year-on-year basis as Q2 of last year had vastly different conditions and any comparison as such would exaggerate the numbers.

The markets have shown good recovery ahead of the festive season. There is some buoyancy in the sentiments of the market. The pre-Diwali business has been good. Traders across the country are preparing for forthcoming wedding season. In about a month from mid-November to mid-December, more than 2 million weddings are slated to be solemnized across the country. Textile, jewellery and service sector are looking at a bonanza by way of wedding purchases. The demand for synthetic fibres in the domestic market has been good. However, as they are being trend over decades, the demand for the yarns picks up in the third and fourth quarter.

The prospects for exports are also looking good. The government having recognized the importance of synthetic fibres for the growth of textile business is now focusing on increasing production of manmade fibres in India in line with international trend. Government policy initiatives have helped immensely in reviving the sentiments in the domestic market. Government policy initiative like PLI – Production Linked Incentives, which is mainly to promote MMF, apparels in garments, RoDTEP, RoSCTL, Mega textile parks, etc. These stimuli have perked up demand and are likely to lead to fresh investments. There are some signs about shortage of key raw materials from domestic suppliers. However, there is no global shortage and the shipping rates, which had skyrocketed are showing some downward trend, coming down tolerable levels.



Coming back to our manufacturing facilities, we have commissioned our 30 MW captive power plant. However, as there is global shortage of coal, the prices of coal have shot up almost 3 times. High prices, of coal, steep freight rate and erratic shipping schedules have a strain on all coal users like steel plants, processing houses and power plants. After having run our plant for several weeks, we have stopped generating power and we will resume the operations when coal supplies are stable and at affordable level. Our proposed plan of de-bottlenecking melt capacity of 50 tons per day and manufacturing lines of 120 tons per day of POY has moved to the execution phase. Ordering of long delivery equipment is complete. We are targeting to complete the installation by June 2022.

The future of textile manufacturing is at an inflection point. Global production of textiles and apparels have rapidly increased over the last decades, which has led to generation of large amount of textile waste. Polyester, owing to its affordability and versatility, is the preferred and most dominant fibre. To ensure sustainability and reduce environment impacts in the textile and apparel industry, utilizing a sustainable and circular economy model is of utmost importance. As mentioned in previous con-call, we had initiated in-house research work on recycling of polyester waste in all forms. This is based on depolymerisation of polyester and removing colour, additives, catalysts, etc. before re-polymerization.

Our lab scale plant trial results after a rigorous efforts lasting over more than 18 months have given us confidence to scale up from 50 kgs per day to a pilot plant of 1500 kgs per day. In this pilot plant we, we will be able to revalidate our process parameters and more accurately compute cost of production for recycling. The output from this pilot plant will also give us an opportunity to test market the quality of recycled chips/ yarns. We expect this plant to be ready by April 2022. Sustainability in the textile and clothing industry has gone beyond just using organic materials and efficient processes. Recycled fibres are fetching a good premium. The pressure on



international brand is high, as these brands and retailers are increasingly being held accountable for what happens throughout the value chain.

To sum up as mentioned earlier, our capacity utilization is almost a hundred percent in case of yarns. The demand is good, our cash flows are steadily increasing. On the strength of strong cash flows, we will look at the appropriate option for utilization, first and foremost one being reducing the debt. The future of polyester filaments, after the COVID slow down, looks good. As before, we are buoyant about the prospects of our company. Thank you for listening. Now we can move on to the question-and-answer session.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is on the line of Sudir Bheda from Right Time Consultancy Private Limited. Please go ahead.

Sudir Bheda: Sir, in the past we have seen whenever cotton prices goes up, polyester margins and polyester demand looks up. So now cotton prices are rolling at all-time high. What is the outlook for our margin, industry as a whole and our company in particular? That is the first question. And second question, what is the volume growth you are anticipating in second half of this current fiscal as we have done some 1,59,000 yarn and total 1,67,000, including chips in the first half. So, volume outlook if you can give in the second half? So, these are the two questions, sir.

Mr. M S Bhageria: Regarding your first question. See the cotton prices have a very low correlation with our margins and prices because cotton prices are more than double or triple than the prices of polyester filament yarn. In the fibre, it makes a difference because in fibre people blend polyester fibre with cotton. But we do not produce polyester fibre. We only make polyester filament yarn. So, there is no correlation as far as that is concerned. The demands for all the fibres have gone up, whether it is cotton, polyester, nylon, viscose, etc. I feel the demand for the textiles will remain high and that will give us decent margins going forward. I think at least for 3 to 5 years



till some big capacities come in, I don't see any downward trend coming in the year as a whole. 1-2 months can always be a little slack, but year as a whole the performance for the textile should remain good.

Second question was about capacity. So, what we have done in this quarter, we should be able to replicate double of that in the next half. This quarter our production has been around 89,000 tons. So, the next half year, I think we should be able to do around 1,80,000 tons. And the margin should remain somewhat little better than the Q2.

Moderator: The next question is from the line of Vikrant Kashyap from KRChoksey Institutional. Please go ahead.

Vikrant Kashyap: In the opening remarks, you mentioned there is a sign of shortage of raw material in domestic market. Could you please give some better understanding that how it is panning right now in this quarter and outlook for the second half? Will we be importing more or the raw material is still available that we will be able to meet our requirements?

Mr. M S Bhageria: See, there has been shortage because there have been sudden shut down in the domestic plants. They had some break down and we did not plan for things like that. The break down happened in Reliance plant, as well as in Indian Oil simultaneously. Some slight production cuts we had to take. But now going forward, we are making import arrangements and we will increase our stock levels also so that we do not face such problems. Also, Reliance has taken over some of the plants like Alok and even JBF. So, their domestic, self-consumption has gone up quite high, almost to the tune of 65%, whatever raw material they produce now they are consuming by itself. Then we will be importing more and keeping the stock level little higher so that we don't have the problem of shortage of raw materials in future. We are taking necessary steps so that we don't face this shortage.

The price parity is same as the imports and what we buy from Reliance. There is not much difference in the prices.



Vikrant Kashyap: Since the realizations for your product has gone up vis-à-vis, has the cost for your input materials also went up in similar way because we have seen stress on margin?

Mr. M S Bhageria: Yes, the cost of the material has also gone up, more or less similar. Some power cost has gone up because lately power had become costly. And when our starting of the plant was happening, we could not buy power on the bilateral agreements, that had all finished. So, we had to buy from the grid, which was slightly costlier. But going forward, I feel from fourth quarter onwards, we should be able to start our power plant again because now coal prices have started coming down and maybe in a month or so they will come to the desired levels.

Vikrant Kashyap: So, how is the outlook for the rest of the year for your input prices for crude related?

Mr. M S Bhageria: It's very difficult to predict that. It is a pass through, but I feel crude should remain around the (+) or (-) \$4 - \$5 at \$80 per barrel. So, the prices should hover around these numbers only, but they fluctuate little bit because they are determined from China and Chinese by nature are very speculative. So, prices keep fluctuating 2-3% every fortnight.

Vikrant Kashyap: You talked about better prospects in exports. Will you please explain more and how we are looking at the exports market?

Mr. M S Bhageria: So, we have a presence in export market, and we have increased our Texturizing production. So Textured is the main product which is exported and previously we were facing shortage of containers and freights were high. As the freights come down, then we will be able to export more competitively.

Vikrant Kashyap: We have improved our product mix over the years. Do you still find better scope for further improvement because we are more focused on FDY and DTY?



Mr. M S Bhageria: Yes, there is always scope for better improvement and that is a very ongoing process. So, I think even after 10 years there will be some scope for improvement. So that we are continuously trying to improve and going to different products or making different products where we can fetch better margins. So that is a very ongoing process.

Moderator: The next question is from the line of Riddesh Gandhi from Discovery Capital. Please go ahead.

Riddesh Gandhi: We understand the prices are up and RM are up as well. Just wanted to understand, delta is going on at the moment and how you see this happening in Q3 and Q4, any expectations around spreads or the EBITDA per ton, as opposed to if not margin. How should we be looking at that?

Mr. M S Bhageria: I think in our case, EBITDA absolute is very important as I have been saying time and again. So, we try to always improve the absolute EBITDA. By changing the product mix our margins per ton can go down, but absolute EBITDA can increase because if we increase our productivity by making coarser deniers, like where the production is more, so the margin is less. But overall, the profitability from the same machine increases, also sometimes we are buying POY and selling certain other POY so that we can get more value. So, I think a better benchmarking our company is to see the absolute number of EBITDA, like we did Rs. 125 crores this quarter, Rs. 101 crores last quarter. Going forward, I feel that we should do much better than Rs. 125 crores in the next two quarters. This is only what I can tell you.

Riddesh Gandhi: And do you see any kind of slow down at all happening in the market or are there any initial signs of slowdown in the end market...

Mr. M S Bhageria: ...slow down, I think can only happen like if COVID third wave comes in or something unforeseen happens. In normal circumstances, I don't think slow down should happen.

Riddesh Gandhi: Right now, the demand is strong and prices as strong and spreads are strong.

Mr. M S Bhageria: Yes, I think it should remain for some time to come. It is not a very short period demand. See one should appreciate for last two years since the COVID has happened, the production capacities have not increased for most of the product, but the demand is increasing, population has been increasing for last two years and also there is pent-up demand from people. So I don't foresee for next 2-4 years till the new capacities come in in products, the demand all around short remain good. Until and unless there is some...

Riddesh Gandhi: Because with Reliance taking over Alok and JBF as you indicated, is that going to be an issue in supply or we don't expect that because...

Mr. M S Bhageria: No, rather that will consolidate the industry because these people who had the cash crunch used to spoil the market. They could not hold on to their product and would sell at a lower price to get money. So I think this will be a positive for the industry as a whole.

Riddesh Gandhi: And have we seen a whole host of the smaller players actually closed down because of lack of economies of scale, which has led to consolidation even more?

Mr. M S Bhageria: No, that has not happened. Only players who has not been able to manage their finances properly, like Alok, JBF, Garden; now being taken over actually. I don't foresee any other player having some problem because last one year has been quite good for the industry. So whatever small problems people had, they must have overcome by the profitability of last one year. So, going forward and their consolidation has happened. Only in the polymerization sector if you see, we are hardly 13-14 players. There are not too many players in that. Rest there are around 15-16, who make from chips to yarn, that is the whole industry.



Riddesh Gandhi: Sir, and then also just to understand that, our debt levels have gone down materially and we are generating a reasonable amount of free cash flow as well. How do we look at our growth plan going ahead? Is the plan to then return some of this to shareholders in the form of buybacks and dividends or is there a CAPEX plan to expand or is it a combination of, how should we be thinking that?

Mr. M S Bhageria: I think it will be a combination. We do have some CAPEX plan, which are already there, which involve a CAPEX of around Rs. 140 crores, and some godowns and other things we are building maybe another Rs. 10-15 crores. But rest, we will reduce our debt and certainly after the year end, we will, reward the shareholders by a buyback or a dividend, as deemed fit by the board.

Riddesh Gandhi: If you could just speak a little bit about the opportunity in your renewable yarn, how large the opportunity could be and how unique our technology is and any barriers to entry in this particular area?

Mr. M S Bhageria: See, this is a very unique technology, which we are developing and there are very few companies in the world, they are also in the stage of developing only. Nobody has fully developed this technology and anybody who is doing also a little bigger project is not using every kind of waste. They are using very selective kind of waste and are able to do it. So, we are developing a technology, we will be able to use yarn waste, PET bottle even fabric waste where fabric in that polyester content is more than 70%. So, this is basically a chemical recycling compared to what other people are doing is mechanical recycling. So, we take out the impurities which are embedded inside the waste, not just surface impurities, and then we repolymerize and make. And there is a huge demand for this material, these are not available. At the moment they are being sold at around 60% premium than the virgin. So, we expect a very good profitability and going forward our main concentration of growth will be in this field once this technology is established. We have already applied for the patents, and I think by the next

year end the patents also would be there. We already have a go ahead to go for commercial production.

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

M S Rajasekar: Congratulations on a good set of number. In your last con-call, you mentioned that you have developed new types of yarn. I just want to know whether it has been launched and how is the response?

Mr. M S Bhageria: Yes, they are being launched, but it takes a lot of time to convince people and showcase. So, it is an ongoing process. We have launched, they will make sample, then they will go to their customers. So, it a very slow process. There is some achievement also, some products have started, some small sales have happened. I think it will take some time.

M S Rajasekar: These new types of yarn are high value added or high margin yarns or how is it?

Mr. M S Bhageria: Yes. These are high margin yarns because these are some yarns which give a very different feel and effect in the fabric, and these are quite unique to the company, some of them.

M S Rajasekar: My next question is in your recycled polyester, in which you are concentrating, and I am sure you will succeed. Is this going to be a game changer for Filatex India?

Mr. M S Bhageria: I think so, it will be a game change.

M S Rajasekar: My last question is, FY19 as being your highest turnover of Rs. 2,874 crores. This FY22 I think you should exceed that, correct?

Mr. M S Bhageria: Yes. I think FY22 we should exceed Rs. 3,500 crores. Because Rs. 965 crores we have done in this quarter, and I think our next two quarters should be

very close and around this much. So, if we add up, it should be close to Rs. 3,500 crores.

M S Rajasekar: Correct and so your margin levels also should remain the same or it could be slightly better, correct?

Mr. M S Bhageria: They can be better.

Moderator: The next question is from the line of Naidu, an individual investor. Please go ahead.

Naidu: Actually, I just joined a few minutes back. I am Naidu. I am the investor of Filatex. So, I don't know whether this doubt is clarified or not earlier, in this call. First, I just want to ask Madhu Sudhan sir, there is a news that came out just a few days back that is the IT raids happening in Filatex manufacturing unit. I just want to know about the clarity on this.

Mr. M S Bhageria: Yes. We had an IT search in the first week of September and our all operations are still going on. There is no such adverse effect on the company and there is no claims or demand from the department as of now.

Naidu: So, there is no issue at all with us, right?

Mr. M S Bhageria: Yes, their assessment is still going on. It is a long process. But I feel there will not be any major issues which the company will face, which can hamper its financials.

Moderator: The next question is a follow up question from M S Rajasekar an individual investor. Please go ahead.

M S Rajasekar: I just wanted to know you were second generation of persons. Who are they, have they joined and what is your plan for your succession planning, please?

Mr. M S Bhageria: Yes. Two people from our family have joined. One is my niece, Stuti Bageria, and she is looking after finance now. She is also looking after purchase. The



other is my nephew, Vedansh Bageria. He has also joined the company and he is looking into marketing of the products, and he had been in the plant for 1½ years before this and looked at the working of the plant and operation. So, they are under training and hopefully in the next 3 to 5 years, they would be able to take over.

Moderator: Thank you. As there are no further questions, I now hand the conference over to management for closing comments.

Mr. M S Bhageria: I thank all the participants for sparing their time and attending our conference call. In future also, if you have any questions, you can always get in touch through our website or email us. We will be happy to answer that. Thank you everybody. Bye.

Moderator: Thank you very much, sir. On behalf of Filatex India Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.