



FIL/SE/2023-24/44
20th February, 2024

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

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Security Code: **526227**

Sub: Transcript of the Earnings Conference call held on 16th February, 2024 for the Q3FY24 results of the Company

Dear Sirs/ Madam,

In continuation of our letter No. FIL/SE/2023-24/42 dated 15th February, 2024 and pursuant to Regulation 30(6) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed the transcript in respect of the Earnings Conference call held on 16th February, 2024 for the Q3FY24 results of the Company.

This is for your information and records please.

Thanking you,

Yours faithfully,
For FILATEX INDIA LIMITED

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Filatex India Limited
Q3 FY24 Earnings Conference Call

February 16, 2024



MANAGEMENT: MR. MADHU SUDHAN BHAGERIA – CHAIRMAN AND MANAGING DIRECTOR, FILATEX INDIA LIMITED
MR. MADHAV BHAGERIA – CHIEF FINANCIAL OFFICER AND JOINT MANAGING DIRECTOR, FILATEX INDIA LIMITED
MR. ASHOK CHAUHAN – EXECUTIVE DIRECTOR, FILATEX INDIA LIMITED

MODERATOR: MR. PRATIK THOLIYA – SYSTEMATIC INSTITUTIONAL EQUITIES

Moderator: Ladies and Gentlemen, Good day and welcome to Filatex India Limited Q3 FY24 Earnings Conference Call hosted by Systematic Institutional Equities.

I now hand the conference over to Mr. Pratik Tholiya from Systematic Institutional Equities. Thank you and over to you, sir.

Pratik Tholiya: Thanks Manan. Good evening everyone. On behalf of Systematic Institutional Equities, I would like to welcome all the participants who have logged into this conference call of Filatex India for their Q3 and FY24 Earnings Conference Call.

We have with us from the Management Team Mr. Madhu Sudhan Bhageria – Chairman and Managing Director, Mr. Madhav Bhageria – CFO and Joint Managing Director and Mr. Ashok Chauhan – Executive Director.

At the outset, I would like to thank the Management for giving us the opportunity to host this Conference Call.

I would like to now welcome Mr. Madhu Sudhan Bhageria to start the proceedings by giving his opening remarks. Thank you and over to you, sir.

Madhu Sudhan Bhageria: Thank you Pratik. Good afternoon and a warm welcome to all of you attending this conference call. Joining me in this session is Mr. Madhav Bhageria – Joint MD and CFO and Mr. Ashok Chauhan - our Executive Director.

I presume you would have gone through the investors presentation which had been uploaded on our website and the stock exchanges.

Let me quickly take you through the “Results” of this Quarter Q3 FY24:

We achieved a production volume of 1,02,924 metric ton as compared to 1,03,306 metric tons in Q2 FY24. The sales volume achieved in Q3 was marginally lower at 1,00,745 metric tons as compared to 1,03,677 metric tons in the previous quarter.

The revenue for this quarter was 1,083 crores over 1,108 crores in Q2 FY24. The operating profit EBITDA is around Rs. 75 crores a growth of around 39% from 53 crores in the last quarter. Profit before tax is 48 crores from 31.5 crores in the preceding quarters. The net profit PAT has increased to 35 crores in this quarter from Rs. 23 crores in Q2 FY24.

Keeping in view the general trends, with some improvement in EBITDA over the last quarter but still it is well below the double digit we had achieved earlier in FY22. Before elaborating on this let me give you a brief observation about the global situation. Russian invasion of Ukraine and subsequent sanctions are not showing any signs of abatement. Israel and Hamas conflict remains unabated.

The effected of interruption in Russian gas supply and overall energy matrix is causing serious concerns. Shipping companies are facing challenges in passing through the Red sea. Crude pricing and petroleum derivatives have been fluctuating almost on daily basis. These conditions have affected commodity markets and supply chains leading to a slowdown in global growth.

One of the major risks of this outlook is the possibility of high global inflation and tepid growth, a reminder of speculation of the 1970. This is likely to result in sharp tightening of monetary policy in advanced economies which is likely to lead to financial stress in emerging and developing economies. International agencies are working with the US, UK, Europe, etc., to create a strong and wide-ranging policy reform to boost growth, reduce financial vulnerability and support vulnerable countries.

Coming back to textiles, the Indian textile is facing challenging time. The current year progress is slower than the previous years as T&A manufacturing declined. Sales volumes of yarns and fibers remain weak compared to the downstream, readymade and retail segment. In spite of good footfall in retail segments the market remained cautious, and demand was not transferring into volumes in yarn and fiber segments.

Overall, inflatory development across the globe and volatile geopolitical upheavals impacted the performance of textile markets. For domestic and international markets have faced strong and chilly headwinds.

The performance of Indian polyester industry has been rather challenging this year. The domestic market was flooded with cheaper imports of substandard polyester yarns and fibers. Government of India had made compliance of quality standards QCO mandatory for polyester filament yarn effective from 8th October 2021. However, multiple extensions of this order led to multiple increase in the imports. Periodic extensions of effective date led to a deluge of imported yarns of

substandard quality and ridiculously low prices. Indian manufacture had no option, but to sell their material at matching prices leading to huge erosion of margins. So, in a nutshell it was a competition against low priced imports.

Appreciating the prolonged suffering from yarn manufacture for almost 7 quarters, Government of India finally implemented QCOs on yarn with effect from 5th October 2023. However, taking advantage of several extensions, the trader placed orders for very large quantities. We believe the situation will now improve once the imported material pipeline gets exhausted. Government of India has to be agile in monitoring its state policies carefully.

China has now started dumping fabric at abnormally low prices, something as low as \$1.4 per kg, which is almost equivalent to the cost of yarn. This is causing distress to all the yarn manufacturers, weavers and processors. The government has been appraised of this unfair trade practice; steps are being suggested to have a minimum of \$3.50 price for custom duty.

Thus, dumping of low-priced imports from China in all form yarn, fabrics have been the biggest challenge this year. Though the domestic demand for synthetic fiber has been good, the large volume of low-cost substandard imports have forced Indian manufacturers to reduce their policies in line with imports from China. This reduction of prices has reduced the margins despite high volumes. Polyester industry at global level is dominated by China.

Overall, at a global level the textile fibers are growing at 3% CAGR. Most of the growth is through polyester filament yarn despite COVID havoc China had added a fresh capacity of around 3 million tons in 2023. However, further expansion has slowed down. China produces around 40 million tons at 80% capacity utilization in 2023. No new investments have been announced in China for 24-25. Indian capacity utilization is also close to 90% with total capacity around 5 million tons per annum. To meet the annual increase in global demand of 3 million ton it is a good opportunity for Indian manufacturers who add new capacity. Though, India is second largest producer, it is distant second as China is around 8 times.

Pandemic has been a great eye opener for the industry while the best realizes that the dependency on China is a two-edge sword. They are on the look out of another sourcing ways. Everyone is talking of China plus One. India is closer to home

compared to others. We are not only self sufficient to meet our needs, but also have capabilities to fill the vacuum. Be at the right place at the right time. However, China being the largest exporter major global consumers and though complete replacement is practically not possible, significant gains can be achieved by strategic steps. Hence, the Indian polyester and the downstream industry should collectively work towards reaping the maximum benefits of this.

A few words about the Indian situation, government of India has recognized the dominant role of synthetic fibers in global textile today. The world producers and consumers have shown wide acceptance of synthetic fibers garments and apparels.

Government of India has announced PLI scheme for the development and boosting of fabrics and garments of manmade fibers. Clusters of mega textile parks are under planning and execution. These large parks will have the benefit of world class amenities which will benefit small and medium sized companies in readymade garments and apparel segments.

Around 2.2 million tons of PTA capacity will be commissioned in the calendar year 2025. These plants are being setup by Indian oil and the other one is by GAIL. This will reduce the dependence on imports which have uncertainties like shipping schedule, exchange rate fluctuation. The domestic demand is robust and is growing at 8% CAGR. Domestic production capacity is around 5 million tons. The new capacity addition in the next 2 years will be only 4,50,000 tons. No other investment is planned. With robust demand, the margins that had dropped due to imports will gradually improve to a regulative level adequate to consider fresh capacity additions.

All these factors are encouraging and will restore confidence in the future of packed fibers and filaments and improved margins. We continue to be buoyant about the future of our polyester filament business. Polyester is the most widely used fibers worldwide. The growth in world fiber production in the last 13 years has come from synthetic fibers only contributing 93% of the incremental growth.

Besides being very versatile, polyester fiber has less impact on the environment. A comprehensive study by Swedish research company has found that it is far less resource intense to produce polyester than conventional cotton from a lifecycle

perspective and the durability of polyester further improves its environmental profile.

We are adding 70 tons per day capacity to produce cationic chips likely to get commissioned by March 2024. This will have an incremental margin of at least Rs. 12, even at 50 tons per day utilization we expect to add around 21 crores to our margins next year. We have been working on improving energy efficiency and energy cost. Investment in renewable energy and usage of captive power is likely to result in savings in power cost.

Considering the focus on sustainability of textile industry and the need to shift from linear to circular economy, we have developed through inhouse R&D a process to utilize textile waste of polyester in any form. After expensive lab test, we set up a pilot plant which is now operating steadily. We are in the process of setting up in upscaled version with capacity of around 75 tons per day.

This process is called chemical recycling. We have material produced is of similar quality as virgin material. Global brand to meet their obligation under EPR offer a premium ranging from Rs. 30 to Rs. 40 per kg for this material. We plan to commission our plant by September 2025. We are evaluating the option of setting up such plants all over the country at places near textile hubs. This is likely to be our growth model which will be in real terms a part of much desired circular economy and an appropriate testimony to sustainability.

Thank you all for your patient hearing.

Moderator: Thank you very much. We will now begin the question-and-answer session. We have our first question from the line of Niraj Mansingka from White Pine Investments. Please go ahead.

Niraj Mansingka: I have few questions. One is on the capacity utilization. I think you're running at more than 100% capacity utilization, is it right?

Madhu Sudhan Bhageria: Yes, we are running almost close to 100% capacity utilization.

Niraj Mansingka: And this is just the period of slowdown in the demand in India, so how do you plan to capitalize that when the demand grows in India. So, how do you plan to capitalize that demand growth for polyester yarn?

Madhu Sudhan Bhageria: I think once the demand grows, we can change the product mix and also make more products which have more value addition. Right now, we have to make product as per the market requirement we don't have much choice because whichever one we can sell easily, we make that.

So, going forward the product mix only can be changed, volumes cannot be increased till we add new capacity. We are adding cationic which I said will add to some value addition on the product and once things stabilize, we will add more capacity going forward.

Niraj Mansingka: So, whatever is the mix today, how much EBITDA can you add in if there is some improvement in the demand in the market and can you give some color on that like how can your margins change and you said is equal to value addition?

Madhu Sudhan Bhageria: Not too much we can do, but maybe we can add another 100-basis point by changing the product mix.

Niraj Mansingka: And secondly you said cationic chip CAPEX, what is the capacity sorry I couldn't hear that and what is the time frame you are looking at?

Madhu Sudhan Bhageria: Capacity is 75 Tons per day and in the first year we might be operating at 50 tons 60 tons. So, that's what we have considered 50 tons in our projection. So, it's a different kind of a polymer.

Niraj Mansingka: How many tons per day, I couldn't hear it?

Madhu Sudhan Bhageria: I couldn't get you.

Niraj Mansingka: What is the capacity of the cationic chips, I could not hear that?

Madhu Sudhan Bhageria: That capacity we are putting is 75 tons per day.

Niraj Mansingka: And this will start by September '25, right?

Madhu Sudhan Bhageria: No, this will start in March '24 only. September '25 is the recycling project which we are taking up that is also for similar capacity that will start in September '25.

Niraj Mansingka: I got it. So, basically, I got confused because both were of similar capacity. That's the reason I want to know.

Madhu Sudhan Bhageria: Yes, almost similar capacity, but they are different thing.

Niraj Mansingka: So, basically, you are having two CAPEX of cationic chips and recycling projects?

Madhu Sudhan Bhageria: One is already near completion only which it will start in next month and the second one we will take it up so that will be around 130 crores to 150 crores that CAPEX will happen in FY25 and being operational in mid FY26.

Niraj Mansingka: And the CAPEX for cationic chips is how much, how many crores?

Madhu Sudhan Bhageria: Cationic chips was around 40-45 crores.

Niraj Mansingka: And if give some color like you said there's not much of capacity being added in India. So, then do you see anything more coming up or is it just a demand supply mismatch?

Madhu Sudhan Bhageria: People will add capacity, but they have to see some profitability there because today for anybody to put a new capacity the EBITDA have to be at least 13-15% to make sense because normally plant of 2,00,000 tons cost around 1,700 crores. So, even if you take like 16-17% margin you need around 260 crores of EBITDA which is almost like Rs. 13 kg or 13% something like that.

So, those kind of EBITDA if don't come then who will add the capacity. I don't think anybody would take a decision to add the capacity. So, maybe in next year we see that kind of EBITDA then there will be people putting up new capacities and also what I hear is that reliance is putting up also new PTA plant of 3 million tons. So that will make India surplus in PTA. So, people would like to match their capacities coming at around when the Reliance plant is coming. So, there's no shortage of PTA which people have to import right now.

Niraj Mansingka: And the last question how you EBITDA margins for chips, POY, DTY and FDY separately for the last quarter?

Madhu Sudhan Bhageria: Chips has hardly any EBITDA I can say I mean depends it can be not even 1% at times. It's a very competitive thing. We are not selling any chips. I think our chip sales would be less than 0.5%.

Niraj Mansingka: And what about the others?

Madhu Sudhan Bhageria: POY right now is around Rs. 4 to Rs. 5 FDY would be around Rs. 13-14 and textured would be Rs. 6-7 present situation.

Niraj Mansingka: So, in the last 6 months or 9 months there's been a good improvement in the FDY margins in industry, right?

Madhu Sudhan Bhageria: Yes, FDY margins improved significantly in the last quarter, but now this quarter also some problem is coming up because of this MSME issues. So, the demand has actually gone down. I mean that is a problem for a lot of products not just limited to our product, but in fabric the credit period is quite long. So, the problem is a little more prominent in industry. Let's see people have given representation to the government if they take something and change some days or something let's see.

Moderator: Thank you. We have a follow up question from the line of Niraj Mansingka from White Pine Investments. Please go ahead.

Niraj Mansingka: You give some understanding of how you can increase your margins when the demand picks up. So, how much FDY can you go up to like your margin in FDY is quite high and how much can we move to this?

Madhu Sudhan Bhageria: No, I think FDY denier is also very low denier. So, the margins can improve by Rs. 3 to Rs. 4 in all the products at least.

Niraj Mansingka: Rs. 3 to Rs. 4 they can increase?

Madhu Sudhan Bhageria: Yes.

Niraj Mansingka: So, it is still not much because you told that...

Madhu Sudhan Bhageria: A healthy margin would be at least overall a double-digit margin then only people will think about new investment.

Niraj Mansingka: So, what you are saying is until your run rate of EBITDA goes up to say double from your so for maybe 120, 130 crores a quarter, it is difficult for others to justify new CAPEX in this industry?

Madhu Sudhan Bhageria: I think to justify a CAPEX in the industry people should get at least on a kg basis at least Rs. 12 to Rs. 14, otherwise you cannot justify.

Niraj Mansingka: And other thing is on your polyester recycling project. Can you give some color on what you are making money right now and what is the experience on the recycling in the last quarter?

Madhu Sudhan Bhageria: Right now, we are not making much money. We hardly produce. We are just producing trial quantities. So, that's not very significant. We hardly produce 10 tons, 15 tons in a month. But going forward once we put up the plant that will be of rate say around 25,000 tons annually that could give us a EBITDA of at least minimum around 50 crores on an investment of let's say around 130 crores to 150 crores.

Niraj Mansingka: And which will correspond to how much rupees per kg?

Madhu Sudhan Bhageria: I have taken a very low number of around Rs. 20 Rs. 22 per kg that is I am talking on the chip stage because what we are putting right now will be only till the chip stage then that chips we can use in house and make the yarn. So, whatever we make on the yarn would be additional. Because the technology is only if the chips stays.

Niraj Mansingka: But is there a demand in India like you said if there's an opportunity to pick up in the textile part in India?

Madhu Sudhan Bhageria: Yes there is a good demand in India and worldwide also.

Niraj Mansingka: And you are talking about this margin because of the sustainability reasons also lot of companies are buying. Is it right?

Madhu Sudhan Bhageria: I couldn't get you.

Niraj Mansingka: You are talking of this margin remaining high because of the sustainability revision product?

Madhu Sudhan Bhageria: Yes, sustainability EPR in the Europe and America they want to have that extended producer responsibility have been put fixed in the Europe. So, they need to have around 25% or 50% of their material to be recycled in the garments which they sell. Right now, the availability is not there, so they are forced to buy non recycled or mechanically recycled products, but they are always looking for chemically recycle which can give a better quality and there's a good demand like there's one perpetual in India which makes so he is able to sell his yarn around Rs. 40 to Rs. 50 premium.

Niraj Mansingka: Wow that's great. Last question is your interest income is also running at the run rate of 11 crores a quarter with cash in the books shouldn't this be much lower on your on your P&L?

Madhu Sudhan Bhageria: You're talking about interest expense or income?

Niraj Mansingka: Interest expense?

Madhu Sudhan Bhageria: Expense this time has been notional because there's a spurt in the Euro to the rupee and we have lot of ECBs in Europe that's why it is there may be like now in December I think it was Rs. 92 again it's come back to 89 so maybe this quarter if it remains in this way we will have a very low interest.

Niraj Mansingka: But what is the total debt right now?

Madhu Sudhan Bhageria: Right now, it is 250 crores which is around 75 is rupee loan and balance 175 is Euro loan.

Niraj Mansingka: Any repayment plan for that?

Madhu Sudhan Bhageria: No, normal repayment is there. So, we would pay another 14 crores, 15 crores in this quarter. We prepaid this year around 15 crores of rupee loan.

Niraj Mansingka: Thank you. That's all for now. You have given a good understanding of the industry.

Moderator: Thank you. We have our next question from the line of Rahul Arukandathil from Vista Wealth Private Limited. Please go ahead.

Rahul Arukandathil: So, my question is again regarding this recycling in the polyester, so please give us a timeline on when exactly the main plant could be commissioned?

Madhu Sudhan Bhageria: The recycle plant we're likely to commission by September 2025.

Rahul Arukandathil: And I was reading about recycling yarn in India and abroad and it seems that the demand is still there, but there are a lot of new technologies coming up for putting this recycle yarn and different technologies that produce yarn at a different costs, so is that one of the reasons why you have taken the price of your recycle yarn on the lower end just to be conservative?

Madhu Sudhan Bhageria: See, we have taken very conservative numbers. In our technology, we will be able to produce the recycled yarn at a similar or a lower price than the virgin. So, then we can always have the margin which the virgin will improve and plus the premium over and others. The new technologies which you will hear from other companies like Loop Industries and there are some other companies in the world who are doing it. So, their cost of production is very high. What I heard is that their cost will be at least Rs. 20 Rs. 30 more than the virgin material once they produce it.

Rahul Arukandathil: So, do you think the reason why the cost of production is so high is because most of these companies are technology companies trying to get into fabric versus you guys?

Madhu Sudhan Bhageria: No, the technology which they are adopting as a high cost of production. So, they have a different technology which they are adopting. We are adopting a different technology.

Rahul Arukandathil: And sir the technology that you have and you can't discuss that at times because it might be proprietary for whatever reason?

Madhu Sudhan Bhageria: We have developed up own, they have developed their own, but whatever is available on the public domain and whatever we come to know, and we had been in touch with one Ambercycle in US, they have also declared their technology now.

So, we were in touch with them and what we had to talk with them that cost was very high. So, their recycling cost was almost like close to \$1 only the cost of

production whereas for us it will be maybe little lower than 50 cents over the waste material.

Rahul Arukandathil: Any idea why that is sir like I mean?

Madhu Sudhan Bhageria: I have some idea, but I can't discuss it.

Moderator: Thank you, sir. We have our next question from the line of Yogeeta from Systematix Institutional Equities. Please go ahead.

Yogeeta: Just two quick questions. One is you mentioned about this cationic chip plant at Dahej, so, what would be the revenue potential let us say one year in the one-year time?

Madhu Sudhan Bhageria: You're talking about the recycle I understand.

Yogeeta: No, the cationic chip plant?

Madhu Sudhan Bhageria: Cationic chips these revenues will not go up only the profitability will go up because we will be replacing semi-dull and bright which we are producing now because we have not added yarn capacity. We are only making polymer and then yarn we will make on the existing machines. Maybe in future we can add more yarn then the top line will go up. Only the bottom line I think would go up at least by 20-21 crores in next financial year because of this.

Yogeeta: And sir this recycle project?

Madhu Sudhan Bhageria: Recycle projects would be commissioned in September 2025 and in the first year we expect a top line of around 250 crores with EBITDA of around 50 crores.

Yogeeta: So, can you throw some light on the aftereffects of this quality control that has been implemented like in the November you have mentioned in your imports got substantially reduced, but currently how is the situation?

Madhu Sudhan Bhageria: I couldn't get you. Are you talking about the QCO?

Yogeeta: The quality control order that has been implemented.

Madhu Sudhan Bhageria: Yes. So, quality control order has been implemented from 5th of October 2023, but there were huge imports which were in the pipeline which got cleared, anything dispatched before the date, that was cleared. So, that's why we had some problem in the 3rd Quarter and it could have been much better.

In the 4th Quarter, the problem of this MSME has come in. Otherwise, initially it started on a good note, but then by the end of Jan this problem was highlighted a lot and that's why the demand has been affected. Going forward and if no relief is coming from the government, then I don't think the 4th Quarter would be any better than the 3rd Quarter. It would be like similar to the 3rd Quarter. Otherwise, I was expecting it to be better than the 3rd Quarter.

Yogeeta: Sir, just one last question. How do you see the domestic demand from the downstream industry to improve and when do you expect that to improve?

Madhu Sudhan Bhageria: I couldn't get you. Please can you repeat?

Yogeeta: The domestic demands and downstream industries when do you expect it to improve?

Madhu Sudhan Bhageria: The downstream industry domestic demand will also increase from April; they are also facing this kind of problem because of the MSME payment which the government has done. A lot of people, even if they are traders, have registered in MSME to get interest advantage from the bank.

So, this issue is throughout the chain right now from the retailer till the manufacturer of fabrics, this issue is there. So, the buying has stopped and slowed down considerably because of this problem. Nobody wants to buy a product where they cannot pay within 45 days. So, once this problem gets resolved I think there is a demand, pent up demand would be there and then huge demand should come from April. If it gets resolved within the next week then of course demand will again pick up.

Moderator: Thank you. As there are no further questions, I now hand the conference over to Mr. Pratik Tholiya for closing comments. Over to you, sir.

Pratik Tholiya: Thanks, Manan. On behalf of Systematic Institutional Equities, I would like to thank all the participants who logged into this conference call and thank the management once again for giving us the opportunity to host this call. Sir, would you like to make any calling closing comments.

Madhu Sudhan Bhageria: So, I would just like to thank everybody for taking out time and participating in this and we hope to meet again in the next conference call for the year ending Q4.

Moderator: Thank you. On behalf of Systematic Institutional Equities that concludes this conference. Thank you for joining us and you may now disconnect your line.