



FILATEX INDIA LIMITED

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National Stock Exchange of India Limited
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Security Code: **526227**

Sub.: Transcript of Conference Call on 9th November 2020

Dear Sir,

This is in continuation to our letter No. FIL/SE/2020-21/30 dated 5th November, 2020 on the 2QFY21 Earnings Conference Call on 9th November, 2020. Please find enclosed the transcript in respect of the same.

This is for your information and records please.

Thanking You,

Yours Faithfully,
For FILATEX INDIA LIMITED

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FILATEX INDIA LTD. Q2 FY21 EARNINGS CONFERENCE CALL

9th November 2020

On behalf of Kaptify, I welcome you all to the 2QFY21 post result conference call of Filatex India Ltd. Today from the management we have with us:

- Mr. Madhu Sudhan Bhageria, Chairman & Managing Director
- Mr. Ashok Chauhan, Executive Director
- Ms. Stuti Bhageria, Sr VP, Corporate Strategy

The management will give an initial brief on the performance for the quarter post which the floor will be opened for Q&A. For all those wishing to ask a question, you may use the option of “Raise Hand” next to your name. In case there is a problem with your microphone, you may send a chat message to me and we will ask the question on your behalf. Please note that this conference is being recorded.

I would now like to hand over the call to the management for their opening comments and remarks. Over to you sir.

Madhu Sudhan Bhageria:

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

The specter of Covid 19 is still causing havoc in the daily lives of people, jobs, and businesses. The menace has not gone away, though the fear in people has reduced substantially and the recovery rates have also improved. After the partial resumption of plant operations, the workers have started coming back. July was still at low capacity on account of a shortage of manpower. However, the situation improved gradually and by the

end of August, we were close to 90% utilization of our yarns capacity. In September, the operations were almost at full capacity. The downstream markets also showed improved sentiments and are returning to normalcy; close to the pre-Covid period.

Thus, the second-quarter performance is significantly better as compared to Q1. However, it is lesser than Q2 of the last financial year.

Let me give you the numbers for ease of understanding -

We achieved a production volume of 72,733 MT as against 16,834 MT in Q1FY21. However, in YoY comparison, it was 84,286 MT in Q2FY20. We achieved a sales volume of 75,235 MT in Q2FY21 as against 76,072 MT in Q2FY20, almost the same volume. The revenues from operations were Rs.507.8 crores in this quarter as compared to Rs.680.2 crores in Q2FY20. This difference is due to raw material prices (melt prices), which have fallen significantly in the last year from Rs. 60.5 in Q2FY20 to Rs. 42.50 in Q2FY21, a drop of Rs 18 per kg. There was also some pressure due to the margins that led to lower revenues.

Our DTY capacity, a part of which was not commissioned due to the lockdown, was completed and we declared commencement of production on 31st August giving us the full benefit of its production in the month of September. In the coming months, we expect our EBITDA margins to improve further, close to double digits.

The effect of government policies of stimulus to the textiles industry, in which polyester now plays a dominant part, is getting visible. The abolition of anti-dumping duty on PTA has led to improved margins. Our global competitiveness has also improved. On the export front, though there are good enquiries, the opportunity is not fully cashed as there is an acute shortage of containers and freight rates have skyrocketed. The shortage of containers is being felt across all industry segments. Various industry forums have raised this concern with the government.

We reaffirm our assessment that Polyester will become the backbone of the resurgent Indian Textile Industry and we continue to maintain a bullish stance for polyester business in the coming years. After the interruption due to COVID lockdown, as we are approaching

normalcy in the business there is an improvement in demand in the downstream markets. The Government of India has realized the importance of Manmade Fibre and at the highest level, the policies are being tweaked to remove the hurdles for rapid growth. There is a long-pending demand for correcting the inverted GST structure. We remain optimistic that the government will consider one GST rate for the complete textile chain covering all natural and synthetic fibres right from raw materials to the garments and other finished products. The gap between Indian and Chinese manufacturing capacity is very large, China being around eight times that of India's capacity in man-made fibres. The future augurs well and given the thrust of Government policies, it wouldn't be surprising to see Indian capacity doubling up.

Certain domestic producers have made a case of imposing anti-dumping duty on MEG – the other key raw material in addition to PTA. All polyester manufacturers have taken up the matter with the Government and are taking necessary steps including legal measures to counter this proposal.

Our captive power project of capacity 30MW, after facing delays due to the national lockdown, is now back on track and the work is now going on full swing. Major equipment have been delivered at the site. The fabrication and erection work is going on. We expect the completion of the project in April 2021. Upon completion, this project will ensure that the plant at Dahej gets uninterrupted high-quality power along with savings in energy costs of Rs. 45-50 crores per annum.

The vast increase in the generation of post-consumer PET plastic waste, as well as fast increasing pledges of brand owners around the world to include recycled content, have resulted in a pressing need for efficient recycling processes, such as chemical depolymerization. As mentioned in the previous con call we had initiated in-house research work on recycling of polyester waste in all forms. This is based on the de-polymerization of polyester and removing colors, additives, catalysts, etc. before re-polymerization. Our pilot plant trial results are encouraging enough to intensify our efforts for establishing an economically viable process. The demand for recycled polyester is firming up in the international markets as there is greater awareness about sustainability in the textile sector.

All reputed international brands have expressed commitment as well as readiness to pay a substantial price premium for recycled products. Such global efforts all over will reduce the quantity of post-consumer waste being dumped in landfills or being burnt.

Focusing on innovation in our existing operations at the plants, the company has set up a product development team to develop specialty products like hollow POY, multiple profiles POY, plus cross-section POY, etc. with unique properties. These products will enrich our product basket and help improve the margins of the company. These efforts, badly hit by the national shutdown, have gained momentum and sampling trials have started.

Let me add that after a loss in the first quarter we have recovered substantially in the second quarter and have managed to cover our interest costs for the first half-year. The Q2 performance has yielded a cash profit of 4 crores for the first six months. We are utilizing our yarns capacity to the fullest potential. The demand is strong and margins are quite good. We have managed to reduce our aging inventories of finished products. I am confident of a strong performance not only in the forthcoming quarter but for the whole second half. Thank you all for listening patiently.

May I request the Moderator to take over and start Q and A session?

Mr. Vinay P (KAPTIFY)

Those who wish to ask a question may use the option of "Raise Hand" next to your name.

Mr. Sudhir Bheda

Congratulations on a good set of Cash flow. In fact, your cash flow in the second half was very superb. It was almost close to 4 crores and you have repaid some loans also. Sir, can you throw light on the overall polyester industry as a whole in terms of export opportunity? So far from an investment point of view, this industry is termed as a commodity. Now we can have a bilateral agreement with Europe. If we get that, China's cost is increasing so what are the export opportunity as well? If you can throw some light on the polyester industry, as well as on export opportunities, which is being, available to India, in view of all this development.

Mr. Madhu Sudhan Bhageria- Filatex India Limited

Right now, we are very competitive against China as far as the cost of production is concerned. There are basically three types of Polyester Yarns. One is POY, which needs to be further textured. Since it needs to be processed twice, India is very much competitive, rather better than China. There's a good volume of export from India. I think on a national level, we are exporting 15 to 18% of the volume produced in India. Then the second is FDY, Fully Drawn Yarn; here China has a huge production and their cost of production is a little lower, but in India, there is a good demand for that product. So whatever we all are producing, there's enough demand in the local market for that. So the product (FDY) is exported, but in very small quantities, maybe around a maximum of 5% of the production of the Indian capacity, but, overall now margins have also increased even in China because their costs have gone up. Based on that, even we are able to increase our margins in the export market. Local (markets) also, since the imports of fabrics have gone down drastically pre-COVID, there's a good demand in India for local fabrics. So the demand for yarns has also gone higher than the pre-COVID levels now since October. And hopefully, I think in the third quarter we'll have a very good quarter, even better than what we had in pre-COVID times.

Mr. Sudhir Bheda

So your margins will go up, in the second half?

Mr. Madhu Sudhan Bhageria- Filatex India Limited

Yes, our margins have already gone up in the third quarter. And, I assume it should sustain in the fourth quarter and thereon. See just before COVID almost 5% to 6% of Indian capacity was wiped out in a fire at one of the producer's plant in Silvassa. That will not come into production in the next two years, because the delivery of the equipment and insurance claims and everything will take a lot of time. That has also, reduced the gap between demand and supply.

Mr. Sudhir Bheda

Thank you, sir. Thank you.

Mr. Shankar

Good Evening. So, I just wanted to ask a couple of questions. Post this lockdown, etc. How has the demand been improving for your user industry in the country? That is my first question.

Mr. Madhu Sudhan Bhageria- Filatex India Limited

The demand for the user industries has also gone up. There's a good demand for fabric in the market. That's why the demand for yarn has gone up and the fabric is in good demand. Almost, September, then October also was very good and even November is doing very good.

Mr. Shankar

I appreciate that answer, but my query really relates to another factor.

Because we were in an extended lockdown there was a lot of pent-up demand during this period. Initially, when you're coming post lockdown, the pent-up demand will result in an immediate demand increase, demand push in the entire sector. Do you think that this demand robustness is going to continue going forward for the rest of the year?

Mr. Madhu Sudhan Bhageria- Filatex India Limited

You're wanting to know whether this demand will continue or is it a pent up demand, am I right? I don't feel this is a pent-up demand because the demand has gradually increased and for the last two and a half months, it is sustaining.

Only a very few places in India are not back to normal. Otherwise, most of the places in India are back to normal with pre-COVID ways of functioning and working, so there could be a slight, lowering of the demand, but not substantially. I do not foresee any bad quarter coming up.

Mr. Shankar

Has it made any changes in the working capital cycle at all right now or is the working capital cycle still the same, as efficient as it was before the lockdown?

Mr. Madhu Sudhan Bhageria - Filatex India Limited

The Working Capital cycle is similar to what it was pre-COVID levels. There is no problem in the working capital cycle side, rather it might have improved a little bit.

Mr. Shankar

And what do you attribute that improvement to?

Mr. Madhu Sudhan Bhageria - Filatex India Limited

There's a good demand. You can always demand the money faster from the customers when the demand is high.

Mr. Shankar

You are not seeing any problem from your user industry, to give you the usual demand, right?

Mr. Madhu Sudhan Bhageria - Filatex India Limited

Yeah. There is no problem with that.

Mr. Shankar

Okay. Can you throw some light on what is your Capex program? What are you going to do for the next few years? Where do you want to see your company in the next three years down the line, etc?

Mr. Madhu Sudhan Bhageria - Filatex India Limited

See right now one Capex is going on. That is for the power project, which will get completed by April 2021. Beyond that, we want to take up a capex of around 90 crores for expanding more into yarns. That will be financed through our internal accruals. And then one more Capex is for recycling of waste. So that will also be an investment of 90 -100 crores. That also we will be able to do from our internal accruals. Because both these CapEx will take at least one and a half years from the start-up date, we would have enough internal accruals (in 1.5 years time) to take care of these investments. These are the only two CapEx we have

as of now, and let us see going forward as the market improves and we start making more money we'll plan accordingly.

Mr. Shankar

Okay. Thank you.

Mr. Vinay P (On behalf of Participant on Call)

Sir, I have received two questions on the chat. One is what was the total utilization level during the quarter for which you declared the result (Q2 FY21) and how much was the contribution of the value-added products?

Mr. Madhu Sudhan Bhageria - Filatex India Limited

On average, we have had close to 70 days equivalent of production. We have had around 75% productivity in the last quarter, as far as yarn is concerned, because that is the main bottom-line driver. We don't consider chips as much because the margins are very low. In this current quarter also we expect to do around 90% in the yarn segment. What else was your question?

Mr. Vinay P (On behalf of Participant on Call)

How much was the contribution from the value-added products?

Mr. Madhu Sudhan Bhageria- Filatex India Limited

Okay. So value-added. Most of the products are now value-added. Almost 70% of the product mix is value-added.

Mr. Vinay P (On behalf of Participant on Call)

The second question is, our EBITDA margins have increased. However, EBITDA has come down a bit. What are the reasons for that?

Mr. Madhu Sudhan Bhageria- Filatex India Limited

Basically, the raw material prices have come down. So per Kg even though EBIDTA margins have dropped per Kg, in percentage terms it has increased because there was a substantial drop in the raw material prices. The raw material prices have dropped roughly by 30%.

Mr.Vinay P (On behalf of Participant on Call)

There's another question. Could we throw some light on the Recycled project and how scalable it is and, by when can we see a commercial-scale plant and what kind of margins can we expect in this business?

Mr. Madhu Sudhan Bhageria - Filatex India Limited

See the recycle project, we are still in the development of the technology. We are doing our own R &D in that. So hopefully by first quarter of next year, we should be firming up our investments to be made into this, and it will take anywhere from 15 to 18 months to bring it into production. We plan to convert the waste into chips, and then these chips will be used to make either Films, or Yarns or PET bottles. It can be used for anything. So we will make all kinds of PET Chips which can be used for any of the uses as mentioned. And margin-wise, I think the margins, as of now are very good. I mean, I would say in the chips sector today, our EBITDA is hardly Rs.1 –1.50, but if we make this product (recycled chips) the EBIDTA would be in the vicinity of at least Rs.20 to 25 per Kg which is around 30% EBIDTA.

Mr.Vinay P (On behalf of Participant on Call)

Are you looking to just restrict yourself to chips or go all the way to yarns?

Mr. Madhu Sudhan Bhageria- Filatex India Limited

We will go stepwise, First we will go for the chips then if need be, we already have yarn production. We can use that chips to make yarn from these similar facilities or if required, then we'll put up a new yarn facility. But as of now, we don't have any such plans. First we want to establish our chips project.

Mr. Vinay P (On behalf of Participant on Call)

And what will be the Capex for these, if we do only chip or we go all the way till yarn?

Madhu Sudhan Bhageria- Filatex India Limited

Chips plant will be in the vicinity of 100 crores.

Mr. Vinay P (On behalf of Participant on Call)

I have received another question. From which sectors are you seeing the most demand now that we are back to 90% of capacity utilization? And where do you perceive the growth of the polyester sector within India? You mentioned it's almost 7% CAGR globally. We would like to know that India growth rate.

Mr. Madhu Sudhan Bhageria- Filatex India Limited

The demand in the Indian sector primarily started from, the upholstery business, like bedsheets and blankets, but then now even Surat and Bhiwandi, the major areas where fabric for clothing are made have also picked up. There also the demand is good. Basically their demand was low because they didn't have the workers. Now the workers are back. So their demand has also increased substantially. That was the reason they were slow in starting because they did not have workers. Mostly, the workers come from Bihar and UP and it was not easy from Bihar and UP to come to Surat and Mumbai areas. It was relatively easier for them to travel to Punjab and Ludhiana and which is much closer. But now the worker shortage is not there anymore. The demand is looking quite robust. What was the second question?

Mr. Vinay P (On behalf of Participant on Call)

He was looking at the clarification on, what do you think will be the growth of the polyester sector within India?

Mr. Madhu Sudhan Bhageria - Filatex India Limited

The growth of the Polyester sector within India historically has been 8 to 9% CAGR. Post-COVID it's very difficult to predict, but since the margins are very good, I think the growth can be high, but the problem is the availability of raw material, The raw material availability

in India is restricted. Right now, the raw material for polyester, what is produced in India is just enough to meet the current requirements of the existing producers. Anybody going for a big expansion will have to wait for some raw material plant to come in. Which will take at least two or three years. I don't see much capacity expansion in India in next 2-3 years,

Mr. Vinay P (On behalf of Participant on Call)

We take the next question from the line of Niraj Mansingka. You can Go ahead.

Mr. Niraj Mansingka

I just wanted to know what is the status of the industry right now in terms of the pickup of woven fabrics and the garments on the domestic side and do you see any pick up in the non-cotton side due to the China factor which is playing. Just wanted some clarity on that from your side.

Mr. Madhu Sudhan Bhageria - Filatex India Limited

The demand in the Cotton sector, I mean, is almost at a very high level and the availability of cotton is limited. So, I don't see much growth in the cotton sector. Whereas in Polyester, the demand has increased because there were a lot of imports from China of fabrics and also of garments from Bangladesh. Fabric import has drastically gone down from China. First of all, people are not able to travel to China to buy the product. Normally people go in and have a look at the fabric and then they buy. The second is also, there is a fear that any time the government might put some duties on the Chinese products. So, the imports are very low from China, very negligible. From Bangladesh, the government has added restrictions that there should be a certain level of value addition on the product before it's being sold to India under Duty-Free. Previously the fabric was imported from China and some small stitching work was done to them and then exported to India. They were able to save duty on the fabric. That route has been curtailed by the government. So there is very less supply coming in. That's why the local demand has picked up quite a bit. A lot of investment is happening in the downstream industries, in the textile sector because of a lot of incentives by the government. All these states are coming with their own textile policies. Telangana has come up with a very good policy. A lot of investment is happening there, even in Orissa, Indian Oil is putting up a yarn plant and they are asking people to put up downstream also.

And even downstream like fabric is also making good money. There has been a lot of machinery coming in every month.

Mr. Niraj Mansingka

If the demand pick-up has been good, how have the margins moved for the spread wise in rupees per kg?

Mr. Madhu Sudhan Bhageria- Filatex India Limited

Like I explained, margins in the third quarter are much much better than what we had in the second quarter. The second quarter was also a recovery quarter from COVID levels. So, from October onwards the margins have been very robust and I have said that we will be having mostly a double-digit EBIDTA.

Mr. Niraj Mansingka

Can you put some more color because right now also, the margins are very closer to double digits? So nine versus 11% won't make a material difference versus in terms of industry situation changing. Can you give some numbers on how their margins have been recently last one month?

Mr. Madhu Sudhan Bhageria - Filatex India Limited

The top line would also go up because the volume in the second quarter was lower. If the volume in the third quarter will go up and the margin will also go up. You can see a very big change in the EBIDTA numbers. I think from what we had in the second quarter it can almost double up as a number in the third quarter

Mr. Niraj Mansingka

And any comment on the numerical side, on the margins for the yarn side, like what percentage movement has it been versus the average for the last three, four years?

Mr. Madhu Sudhan Bhageria- Filatex India Limited

I think this third quarter margins are one of the best in the last 3-4 years. This much I can say.

Mr. Niraj Mansingka

Okay. Thank you

Mr.Vinay P (On behalf of Participant on Call)

Follow-up question, crude prices are coming down, what is the status of prices of the raw material PTA & MEG and how will it impact margins going forward.

Mr. Madhu Sudhan Bhageria - Filatex India Limited

See prices have now lost connection with the finished product prices since the margins are good. The connection between the raw material prices and the finished price is more 1:1 when the margins are low because then you need to pass on any increase (in raw material prices) or if there is any pressure on sale, you need to reduce if there is any drop in the margins, but also lately the prices of raw material have been quite stable. There's not much movement. There is movement, but not much. It has been within a 3% - 5% up and down that's all. Every week we have pricing of the raw materials. If there is an increase, we are able to pass it on, rather if there's a small decrease we hold on to the prices. So that is what is happening since the last 2 months.

Mr.Vinay P (On behalf of Participant on Call)

Another follow-up question on the recycling project, would it be correct to assume that a 100 TPD plant will be able to generate an EBIDTA of around 100 crores.

Mr. Madhu Sudhan Bhageria- Filatex India Limited

I would say, a 100 crore plant would, according to me, do an EBIDTA of 50-60 crores. A 100 tons per day would be a nameplate capacity, but I do not know since it's a new product, so I am assuming we should be able to run at 75-80% initially. But based on that, I have calculated the EBIDTA.

If we do Rs. 20/Kg, it'll be like Ra. 15 lakhs per day and multiplied by 350 it should give Rs. 50 crores EBIDTA every year. I'm not taking the numbers to the full extent, because it's a new thing. It's very difficult to predict, but yeah, it will be very lucrative and, a game-changer for our company.

Mr. Vinay P (On behalf of Participant on Call)

Would you be able to throw some clarity on the recycling plant, whether it will be as a subsidiary, as a different company, or as a part of the existing company? And how would it be funded?

Mr. Madhu Sudhan Bhageria - Filatex India Limited

Most probably we would do it as a subsidiary because being a recycled plant, it will be easier to get a lot of benefits from the government. And it's always easier to get it in a new entity. Also, you can see new entities also would have a lower percentage of the corporate tax. It maybe better to have a new entity. Most probably it will be a new entity owned by the company.

Mr. Vinay P (On behalf of Participant on Call)

Can you shed some more light on the technology, any other companies working on it globally on similar technologies?

Mr. Madhu Sudhan Bhageria- Filatex India Limited

Few companies are working on this, but no company in the world has been able to establish a very robust system and no company in the world is producing the volume, which I'm talking about. The companies are producing around are 15 - 20 tons per day max. Some of the names are Perpetual, DuPont & Teijin in collaboration, Moral fibers, etc. but none of them have come up with any big production as of now. Loop industry is there for the last 7-8 years. They have spent almost \$30- 40 mn, but still, nothing on the face of it is visible. Nisco Japan is doing maybe 5 tons per day, but all these companies are not regularly running, they're on and off in production. They're still trying to develop the know-how to the fullest. You see, all these companies have deep pockets, and have been able to raise funds from venture capitalists and basically, none of them except Teijin is a polyester

manufacturer. Well, once it is successful, I think it will be one of the unique things which we will achieve. We are quite hopeful because, in the pilot plant, we are very successful. They are just one or two small hitches, which we are trying to work on. Once we are able to go through that, then it will be over. But you see, the research and development takes a lot, one idea comes, then you have to make a lot of changes in your plant and then do some trials and make changes so it takes a lot of time and in this COVID times things also moving very slow. I mean, if you want some equipment or some people to come in, all of the things are very slow, But hopefully, I think by early first quarter of next year, financial year, we should be through with the development process. Maybe around four to six months from now.

Mr. Vinay P (On behalf of Participant on Call)

What gives us the confidence of delivering on this technology and bringing the plant to scale when so many big players with deep pockets have not been able to deliver?

Mr. Madhu Sudhan Bhageria - Filatex India Limited

I can't comment on them. I know my plant. We have been quite successful. We have made chips out of that, but only the quality we need to improve. It's not that we have not achieved results. From the waste, we have been able to make chips, but only thing is that we want to improve it to a level where we can get consistent quality. Those hiccups we need to solve where the quality is consistent and better. The process has been established, but some of the places where we need to improve, we are working on that.

Mr. Vinay P (KAPTIFY)

Anybody else who would like to ask a question, please use the option of this handover and unmute your line and ask the question. Since there are no further questions, I would request you. If you could give your closing remarks.

Mr. Madhu Sudhan Bhageria - Filatex India Limited

I would like to thank everyone who has joined and in future also If you have any questions, please let my team know. We will try and answer it to the best possible of our ability. Thank you for joining us.

Mr.Vinay P (KAPTIFY)

Thank You, sir. On behalf of Filatex India Ltd. Thank you all for joining this conference call.

Thank you very much.