



FILATEX INDIA LIMITED

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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 Conference Call on 28th July, 2021

Dear Sir,

This is in continuation to our letter No. FIL/SE/2021-22/25 dated 23rd July, 2021 on the Q1FY22 Earnings Conference Call on 28th July, 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

Ramesh

COMPANY SECRETARY

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“Filatex India Limited
Q1 FY2022 Earnings Conference Call”

July 28, 2021



ANALYST: MR. SUMANT KUMAR - MOTILAL OSWAL FINANCIAL LIMITED

**MANAGEMENT: MR. MADHU SUDHAN BHAGERIA – CHAIRMAN & MANAGING DIRECTOR - FILATEX INDIA LIMITED
MR. MADHAV BHAGERIA – JOINT MANAGING DIRECTOR & CHIEF FINANCIAL OFFICER - FILATEX INDIA LIMITED
MR. ASHOK CHAUHAN - EXECUTIVE DIRECTOR - FILATEX INDIA LIMITED
MS. STUTI BHAGERIA - SENIOR VP, CORPORATE STRATEGY - FILATEX INDIA LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the Q1 FY2022 Earnings conference call of Filatex India Limited, hosted by Motilal Oswald Financial Limited. 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 phone. Please note this conference is being recorded. I now hand the conference over to Mr. Sumant Kumar from Motilal Oswald Financial Limited. Thank you and over to you Sir!

Sumant Kumar: Thank you. Good afternoon everyone and a very warm welcome to Filatex India Limited Q1 FY2022 post result earning call, hosted by Motilal Oswald Financial Services. On the call today, we have the management team being represented by Mr. Madhu Sudhan Bhageria, Chairman & MD, Mr. Madhav Bhageria, Joint MD and CFO, Mr. Ashok Chauhan, Executive Director, and Ms. Stuti Bhageria, Senior VP, Corporate Strategy. We will begin the call with key thoughts from the management team thereafter we will open the floor for a Q&A session. I would now like to request the management to share their perspective on the performance of the company. Thank you and over to you Sir!

Madhu S Bhageria: Thank you, Suman. Good afternoon to you all. Once again, a warm welcome to all of you, attending this earning call for the quarter ended June 2021.

I hope all of you have safely sailed through the havoc caused by the second wave of COVID, which has affected millions of lives. I presume you would have certainly gone through the presentation, which has been uploaded on our website as well as on the stock exchange.

The textile industry after a very tough period from April to July in 2020 enjoyed a breather from the upheavals of slowdown, shutdown, Corona, labour shortage, container shortage, high shipping cost etc, etc. In fact, the performance in the fourth quarter last year was the best till date and this would be true for almost all companies in the textile sector. The recovery was not just for synthetic yarn but for cotton and other blends. An increase in duty rates on cheap imports had a curbing effect which also contributed to the firmness in the market. Export market opportunities came in plenty but could not materialize fully due to a very erratic shipping schedule and steep shipping cost. We had expected the momentum to continue in the first quarter, but it started going down as the number of COVID cases increased rapidly.

In the last conference call, we had expressed exuberant in the market in Q3 which continued almost through the next quarter. We had said that Q3 was extraordinary then Q4 was

stupendous. However, we also mentioned that it was rather exceptional and unlikely to continue as a benchmark for any comparison.

The first quarter of FY2022 has been a mixed bag. The second wave of COVID hit the country. Let me quickly go through the results of this quarter Q1 FY2022 before talking about the second wave. We achieved production volume of 78000 metric tons which is around 81% of our capacity. The revenue for the quarter is 699 Crores and operating profit, EBITDA is around 101 Crores. Profit before tax is 76 Crores and net profit PAT is 52 Crores. We have not compared the results on a QoQ basis. For Q1 of last year has the comparative conditions are vastly different and it would not make much sense.

To understand the economic impact of the second wave, let us revisit and remind ourselves of the first wave and its impact on the economy. In the first wave, we went through a prolonged national lockdown and a significantly lower number of few cases. Manufacturing and the urban economy had come to a grinding halt, while the rural economy continued to move because of a less strict lockdown as a result agriculture which is a primary driver of our rural economy providing employment to 58% of our population continued to grow. Agriculture further benefited from good monsoon and cheaper and higher availability of labour. Reflecting on the GDP figures - our agriculture economy grew by 3.4% while the overall economy contracted with 7.7% in FY2021. The first wave was primary urban in its way so when partial relaxation was announced manufacturing activity at partial capacity started rolling up gradually as the migrant labour returned. The capacity utilization rate went up. In fact, by the end of the whole financial year, almost all manufacturing sectors did well.

The joy of splendid recovery in Q4 last year was short-lived. The sign of a second wave was visible; however, the mood across the county was that we have managed to be here and now contain the virus. The visible signs were not taken seriously. No travel bans and laxity in testing and comfort of the first shot of vaccine gave us a false sense of security. The COVID patient's numbers started rising exponentially and no one knew what to do and how to treat the infected person. There is hardly a family which did not have a case. The second wave was more devastating in its effect causing extreme stress on healthcare infrastructure. As in the second wave, rural areas started reporting more cases than urban ones. The distress and panic were widespread. An analysis of more than 50 most severely hit districts indicated that 26 were in rural areas. The situation was further aggravated due to the inadequacy of medical infrastructure in the rural areas and the rush of patients from villages and smaller towns to urban centres.

We believe that the economic fall out of the second wave of the pandemic at worse is likely to remain restricted to the first half of this financial year. Although the availability of

vaccines and revival in private consumption will determine the speed of economic recovery. Although some contact intensive sectors like hospitality, leisure, travel may continue to be hit harder than the rest of the economy. The economic damage from the second wave is likely to remain restricted. We also expect the overall hit to India's economy to be softer than that during the first wave last year. As the lockdowns have been localized hence city or state-specific, consumption was stalled but manufacturing activities were allowed to continue. So, there was little loss of production. However, the pace of economic recovery will be determined by access to and delivery of vaccines and the strength of the recovery in private consumption, which could be hampered by the slump of income streams of low- and middle-income households from jobs and wealth losses. Besides increasing healthcare infrastructure spent it is crucial for the government to extend employment and income support to smaller firms, the rural economy including unorganized sector, the services sector, and the urban poor - the four segments most likely affected by the reimposition and extension of restriction. The steep rise in medical expenses along with dwindling income has also added to the pain.

The textile sector as a whole is quite self-reliant in terms of raw material, skillsets, manpower, and not to forget well established domestic market. Several experts and advisors had identified stagnating factors such as lack of skills, bias towards cotton, inadequate support to MSME, preferential trade agreement, etc. The government's blueprint enumerating policy initiatives have started addressing all these issues as Atmanirbhar vision moves onto the implementation stage. The government has recognized the importance of the textile sector in job creation and the importance of manmade fibre in textile fibre basket. We continue to remain bullish about our prospects.

The Indian polyester industry after the removal of anti-dumping duty on key raw material that is PTA has improved its competitiveness and capacity utilization has improved. There are some other structural anomalies like inverted GST structure which are hampering the growth. The polyester industry continues to suffer on account of inverted GST structure, higher rate of 18% on raw materials and 12% on finished products like yarn and going forward in the value chain, 5% on fabrics and garments. A uniform GST rate across the whole chain will ease the working capital needs and spur growth across the whole industry which has many MSME companies as the end-users.

The policies are being reviewed and modified to remove the roadblock for accelerated growth in fabrics and garments made from MMF. The government has taken effective steps to plug loopholes by imposing value addition norms on garments that have curbed duty-free imports from FTA countries. Custom duty rates have been increased from 10% to 20% on the import of around 300 textile products.

The government has extended the rebate of state and central taxes and levy, RoSCTL for exports of apparel, garments that are made till March 2024. However, textile products which are not covered under RoSCTL would be eligible to avail the benefits under RoDTEP. This will be a big boost to export including textile products.

Another boost is the inclusion of MMF garments in apparel in the PLI scheme. Anti-China sentiments are gaining ground in global trades and these schemes are likely to boost exports which are currently hampered due to high shipping rates as well as a high number of COVID cases worldwide.

Load trial of 30 megawatts captive power plant at Dahej is going on since the last two weeks. We are aiming to achieve commercial operations of the power plant shortly. The erection and commissioning were hampered severely by travel restrictions of experts from Pune, Maharashtra when the spread of COVID which led to the suspension of the work. Almost the whole erection team of boilers suppliers had to be quarantined due to COVID. Upon completion of this captive power plant, the annual impact of savings in energy cost will be around 40 Crores.

The company continues to review its plant operation and equipment and their optimal utilization. This exercise helps us optimize operating costs as well as identify opportunities for debottlenecking any surplus capacity. The company has identified opportunities to increase its CP melt capacity by around 50 tons per day. This additional melt along with surplus chips volume will be utilized for producing around 120 metric tons of POY.

In my last conference call for Q4 FY2021, I had explained about our rationale about chemical recycling. Our company is engaged in R&D activities, developing process parameters for recycling of polyesters. 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 the generation of a large amount of textile waste.

Polyester owing to its affordability and versatility is the preferred and most dominant fibre. To ensure sustainability and reduce environmental impact in the textile and apparel industry, utilizing a sustainable and circular economy model is of utmost importance. The industry requires manufacturers to set up their effort for meeting sustainable environmental standards. Initial efforts on recycling were limited to PET bottles being washed, cleaned, and reprocessed into fibre. Another possible alternative is by way of chemical recycling in which all kinds of waste be it bottles, or textile waste is depolymerized in a controlled manner which after purification is repolymerized to produce PET products matching in quality to that produced by virgin raw materials. After successful lab trials, we are moving

ahead with a 1000 kg per day pilot plant which will help us to revalidate our process conditions and operating costs.

With the growing textile and apparel markets of India improving export competitiveness there are significant opportunities across all fibre types and products; however, MMF based textile products are expected to be leading in demand globally. India's MMF based textile manufacturing is focused towards low value-added and commodity products. The demand for high value-added products like sportswear, performance wear is growing rapidly worldwide. Countries like Taiwan, Korea, and China are already into manufacturing high-end MMF based textiles. To keep pace with current trends and needs, India economy needs to invest and develop capabilities in MMF textile and apparel products to tap the higher value-added segments.

Thank you all for listening to our assessment of the current economic scenario and continued belief in the bright prospectus of the polyester textile industry.

I, now, will gladly respond to all the questions that you may like to ask. Thank you.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Ravi Sundaram from Sundaram Family Investment. Please go ahead.

Ravi Sundaram: Good afternoon team. Thanks for the opportunity. I have two questions. Sir my first question is how the demand has been as they are progressing into Q2 and the realizations for yarn. You do not have to give any number but just the trend?

Madhu S Bhageria: Going forward in Q2, the demand has started picking up and I feel that by the end of Q2, we should be having demand as we had in last year in Q3. As per the margins also, the margins are under pressure, but they have shown signs of improvement and I think as the demand increases the margins will also increase going forward.

Ravi Sundaram: I had one question on margins. I notice that PTA prices, which is, one of your key raw materials have actually gone up. I assume MEG prices also have gone up. Will this have any impact on your upcoming quarters or Q2 to start with?

Madhu S Bhageria: Upcoming quarters depends, if the demand increases we will be able to pass it on, but in this Q1 we were not able to pass it on fully because the demand was low and it was going down, but from the beginning of July the demand has started showing signs of improvement and as the demand increases we will be able to pass on whatever increases there are and maybe more than that.

- Ravi Sundaram:** One last question. This is on accounting entry side. What is the depreciation number that would hit the quarterly numbers when we have the new power plant coming in? I understand we will have yearly 40 Crores saving in power plant.
- Madhu S Bhageria:** I could not get your question, please.
- Ravi Sundaram:** Once you have the new power plant commission what will be the depreciation number that will be added.
- Madhu S Bhageria:** Depreciation may be on an annual basis it will add around 4 to 4.5 Crores.
- Ravi Sundaram:** Thank you Sir. That is all. Have a great day.
- Moderator:** Thank you. The next question is from the line of Vivek Choraila, an individual investor. Please go ahead.
- Vivek Choraila:** Thank you for the opportunity. Sir, in the last call that we had mentioned, we did an EBITDA of 120 Crores in Q3 and you said going forward you should be able to maintain that a bit more and then the power cost savings on that, and Q1 has been a bit late but are we still on track to delivering those kinds of numbers or do you think there might be lack of one or two quarters?
- Madhu S Bhageria:** Already there is a lag of one quarter and the second quarter, I also do not expect to reach that level but from the third quarter onwards we expect to do what I have said or maybe better than that. Because now the demand has started picking up and going forward it picks up the margins will improve, and we will be able to achieve what I have said maybe better. These are based on facts seeing the international margins. Internationally, the margins which are there we have based our calculations on that and that to on a little lower side.
- Vivek Choraila:** One more question Sir. I was just going through the numbers over the past 7-8 years. We have done a margin of 8% to 10% and after COVID that has obviously almost doubled to 16%, 17%, 18%. I just want to understand. Do you think it is 1-2 year sort of a scenario where we are able to utilize maybe a tighten marketing in terms of supply or do you think there is some structural change in which over the next 3 or 4 years little confident that we will be able to maintain the sort of numbers that we are showing at the moment? I just wanted to get a broad picture of the next 2-3 years.
- Madhu S Bhageria:** Yes, there has been structural change and there are lots of factors which are contributing to this. One, I said is the antidumping duty removed on our raw material has helped us in improving the margins. Also, the demand has also grown locally and there has been no

capacity addition in the industry for the last one and half years. Rather there was a fire in February 2020 which destroyed almost 6%-7% of the capacity and also, the government has put some curbs on imports which were coming at zero duty or a lower duty. So, all those factors have helped us and in the long run, will help us in keeping the margin at these levels.

Vivek Choraila: Just one more question. In one of the media interviews, you said that we hope to achieve our top line of about 3200 Crores this year. I just wanted to get a sense. Over the next 2-3 years can we do a 10% to 15% CAGR on the topline. I mean I am just trying to understand for FY2023 can we expect an increase in the volumes and the top-line figure over FY2022?

Madhu S Bhageria: See it is difficult to say on the top line because the top line is also governed by the raw material prices in our case. We expect to do around 3200 Crores this year on the current raw material prices and next year we should add because we are adding a certain new capacity of POY, so we should be able to add at least 12% to 15% next year and then going forward also once we do more expansion or more value-added things we should be able to add, but the topline would be dependent on the raw materials. Profitability we will be able to improve year on year.

Vivek Choraila: Thanks.

Moderator: Thank you. The next question is from the line of Rushabh Shah from RS Capital. Please go ahead.

Rushabh Shah: There was some news article yesterday that Europe has suspended GSP status of Pakistan. Is it true? Does the company anyway benefit, or some opportunity can arise for us?

Madhu S Bhageria: I think that status is yet to be suspended. There are talks about the suspension. And once it is suspended, the whole textile industry can get some benefits and then indirectly we will also get benefits because of the demand for textile products increasing in Europe from India.

Rushabh Shah: How does Filatex stand to benefit or is it a game-changer, possible game-changer if it happens?

Madhu S Bhageria: I cannot say right now because the demand for the fabrics and garments will be more there. The demand for yarn is not too much and Pakistan was not exporting too much yarn to Europe, so I do not see yarn directly getting impacted by this.

Rushabh Shah: We have seen a change in the textile ministry sometime back, is there any talks of a new National Textile Policy, which is yet to be announced. Are they seeing any kind of benefits we can get from that?

Madhu S Bhageria: I think the PLI scheme which they will be announcing very shortly maybe after the Parliament session. There they have included a lot of garments from manmade and fabrics of manmade in PLI scheme so that will give a boost to us because the demand for manmade yarns and fibre would increase. That is one big announcement which is to be coming and then also after the session, there is a GST council meeting scheduled in that we expect they rationalize our GST rates that also will be a boost for us.

Rushabh Shah: Thank you, Sir.

Moderator: Thank you. The next question is from the line of Dipesh Khara an individual investor. Please go ahead.

Dipesh Khara: Congratulations on the results. I think we have done commendably and looking at the financial, I was just concerned on the changed inventory front so I think we have constantly been decreasing our inventory any statistical move on that front or can you throw any light on that. Change in the inventory of finished goods?

Madhu S Bhageria: Yes, finished goods inventory has increased because we did not reduce the production as per the demand, so inventories higher because the raw materials prices were firming up and we did not want to lose out on the production and at the moment finished goods inventory is on the higher side, but we hope to liquidate in this quarter and next quarter as the demand increases.

Dipesh Khara: You said, are we piling up because I think the second inventory shows negative progress, so I think we are realizing on our inventory?

Madhu S Bhageria: Negative shows that we have increased the inventory because that is from the expense side; expense side negative shows there is an increase in the inventory. It gets reduced from the expense side because it is inventory, it is not expenditure.

Moderator: Thank you. The next question is from the line of Sudhir Bheda from Right Time Consultant Services. Please go ahead.

Sudhir Bheda: Good afternoon Sir and congratulations on a good set of numbers given the challenging circumstances. Your team and you did a really commendable job. Sir my question is we have produced around 83,900 so almost 84,000 metric tons in the March quarter but we

understand given the circumstances we have produced around 67,000 out of that 5,000 was chips and 62,000 yarn. So, going forward in the coming quarter where do you expect to reach at this 84,000 level?

Madhu S Bhageria: I think in Q3 we will be able to reach that level for sure.

Sudhir Bheda: See if you look at the margin, 22% margin was there in Q4 of course these are definitely high margins and then we have around 14.45% in the June quarter. So, how do you see margin going forward after commencement of power plant and also we are going for value-added product so how do you see this margin panning out in rest of the year?

Madhu S Bhageria: I think on average, we should be doing in the whole year maybe 15% to 16% because the power plant will also add up so that is what I feel we should be doing and it should gradually improve. I mean in second quarter, I do not expect to improve much but from third quarter I expect it to increase more.

Sudhir Bheda: Thanks for the opportunity and all the best.

Moderator: Thank you. The next question is from the line of Maulik Patel from Equirus Securities. Please go ahead.

Maulik Patel: Thanks for the opportunity and congratulations on good set of numbers. Few questions, one is any further clarity we have on the recycled project which you have been following up on?

Madhu S Bhageria: Yes, recycled project, we have done trials in a very small manner which was like 50 kgs per day and now we are going on the second stage. We are building a small plant where we will be able to do 1000 kgs per day and 1000 kgs per day we can do some seed marketing from that. Once that is successful then we will go for the final big plant. This will take another 5-6 months to establish and then to work around the parameters another 1 or 2 months. Once you are successful done that then we will go for bigger plant which would take at least 1 year after that.

Maulik Patel: Second question is on competitive intensity side. There was the Bhilosa plant which had a fire and there is capacity addition also announced by Indorama also couple of months back. So, are we still looking at another deficit market for polyester yarn for the next one and half years? Is the same situation still there?

Madhu S Bhageria: I think the polyester market will remain deficit for long time to come. Internationally in the normal time, the demand is increasing by almost two and half to three million tons so that demand once the COVID is over I think will come back. Also, according to me, the

population increase is happening worldwide, so that demand will also come in one go and there has been no increase in the supplies from last one-and half to two years. So, all these things, I think will have a good period once the COVID is over worldwide there will be good demand

Maulik Patel: Sir any update on the PLI scheme where you mentioned that the manmade fibers were the included?

Madhu S Bhageria: There has been no updates from the Ministry but whatever we have been hearing and there has been some agencies who have been talking and taking the views so whatever we have gathered from that based on that I have said that they are bringing PLI scheme for mainly MMF based garments and fabrics and also, some technical textiles. Technical textiles are basically also made from manmade.

Maulik Patel: Sir the last question is on the domestic demand. There was definitely hit in the month of April-May because of the second wave, on a similar uptrend what had happened the last time in the previous year the post first COVID wave there was tremendous demand, pent up demand which has come from the hinterland, rural and other areas?

Madhu S Bhageria: You will see last time also, the main demand started coming from end of August only, till mid-August there was not much demand. The demand immediately picked up at the end of August only. So I expect the same to happen but this time what has happened is the pipeline was not so dry because people were producing and holding the stocks so I think by August end we should see because there will marriage season starting and festival season starting and I think this vaccination drive would also have picked quite a bit by then so all these factors will see that there is a good demand for textiles after August end.

Maulik Patel: Great Sir. Thank you and wish you all the best.

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

Niraj Mansingka: Thank you for the opportunity and congratulation in maintaining reasonable numbers in the latest environment. I want to know on the capex front, you guys give the press release on increasing capacity, can you go give more details on how, timelines, where it will scale up and how much capacity addition we have on yearly volume?

Madhu S Bhageria: Right now, we have just planned for one capex which is expansion on POY capacity and some debottlenecking in polymer and that will be completed by first quarter of next year. So, we have 9 months of production in the next financial year from that and also we are

planning to put up more Texturizing machines but that we are planning to put in subsidiary of Filatex because there are lot of benefits which will be available to a new company and Texturizing we get also from the center and also there are certain benefits from the state like interest subsidy and also power subsidy of Rs.2 per unit. So, we will be doing it in a different company but 100% subsidiary of that but that yet to be finalized. I think maybe after the second quarter, we will take a decision on that. Second, we are doing a small expansion or you can say in R&D we are putting that 1000 kg per day of waste recycling that will be operational by end of this financial year only. These are only available and next year once the waste recycling is through then we will invest in putting up a plant for the waste recycling in a bigger way of 100 tons per day.

- Niraj Mansingka:** What are your gross margins of DTY and FDY for the quarter?
- Madhu S Bhageria:** It is very difficult to say for the quarter, but as I have indicated, we should be doing around Rs.14 per kg on our total production as a year as a whole, Rs.13-14.
- Niraj Mansingka:** There is some restatement in the capacity that you have put in the presentation.
- Madhu S Bhageria:** Minor changes, we have done, because of the denier changes that means, in the same machinery, if you change from one denier to another the capacity changes. So based on the last one-year experience, we have some minor changes, you will see the total reduction of only 1760 tons out of 383000 tons, rest is just shifting from one product to another.
- Niraj Mansingka:** Any colour on how would you have some changes for your output amount like in terms of margins or the mix would change or any colour on that?
- Madhu S Bhageria:** Margins will remain quite healthy; I think once demand picks up. The main product is, FDY and DTY and POY so, chips we do not have much margin, so that is why we are trying to convert maximum possible chips to yarn, so that is what is putting more capacity of POY and DTY in the next one year.
- Niraj Mansingka:** Last, how has the margin trended over the quarter and the current run rates of margin, just a colour on that rather than a number?
- Madhu S Bhageria:** Margins after Q4 has been going down since the COVID restrictions were applied and the demand and the markets were closed. But now as the things are opening up, the demand is picking up and the margins have also started inching up, but it will take some time for the demand to pickup, like I said, maybe another month or so.
- Niraj Mansingka:** Thank you.

- Moderator:** Thank you. The next question is from the line of Deepesh Sancheti from Manya Finance. Please go ahead.
- Deepesh Sancheti:** Just wanted to have an update on what is the situation of our shares, which have been pledged and when are we planning to unpledged them?
- Madhu S Bhageria:** See, the share pledge is not that we have borrowed money against that. At various times, when we had borrowed money for the company from the banks, so this has been given as a collateral security and now since the security with the banks is quite good, we have already applied for de-pledging them and it is in the advanced stage and hopefully, we will be able to get de-pledged by the end of this quarter. There is no actual borrowing on this. Like, when you borrow term loans, they ask for collateral security at various times, and at that time they would say that okay why do not you give shares if you do not have any property and we used to give them such shares to get the loan.
- Deepesh Sancheti:** It is basically for the loans for the company only, not for any personal?
- Madhu S Bhageria:** There is no personal borrowing on this. These are all pledged with the banks of Filatex only, the commercial banks, which have given loans to Filatex. There is not even Re.1 borrowing personal loans by pledging the shares.
- Deepesh Sancheti:** On the expansion, which we are planning to do about 130 Crores, according to the latest announcement, is all by foreign currency loans only or are we planning to even do a preferential to promoters?
- Madhu S Bhageria:** Right now, we will be taking some ECB which is for the machinery, which we will import from Germany, so there we can get an ECB at a very lower rate of interest. Rest will be all through internal accruals.
- Deepesh Sancheti:** Sir how much is the loan taken?
- Madhu S Bhageria:** The loan would be around 52 Crores.
- Deepesh Sancheti:** 52 Crores. Rest?
- Madhu S Bhageria:** Rest all will be internal accruals and whatever extra cash flows we have then we will retire Rupee loans in advance this year also like we did last year.
- Deepesh Sancheti:** That is great. By this year what is the target loan book?
- Madhu S Bhageria:** Our target is to achieve at least on term loans to equity around 0.5. Right now, we are at 0.7.

- Deepesh Sancheti:** This will include the 52 Crores which you are taking?
- Madhu S Bhageria:** It will include that. Including that by the end of the year we should be targeting to go to 0.5.
- Deepesh Sancheti:** Thank you.
- Moderator:** Thank you. The next question is from the line of Jeet Chokalingam from Equinomix. Please go ahead. As there is no response from the line, we will move to the next question, which is from the line of Darshit Shah from Motilal Oswal Financial Limited. Please go ahead.
- Darshit Shah:** My question has been answered. Thank you so much.
- Moderator:** Thank you. The next question is from the line of MS Rajasekar an individual investor. Please go ahead.
- MS Rajasekar:** Good afternoon Sir. My question is you are doing the chemical processing of the recycled yarn, which is chemical-based. Will you do the first one in the country or the world to do this kind of chemical processing?
- Madhu S Bhageria:** No. We will not be the first one. I think, there is one company which was named Polygenta, now the name has been changed, so they are doing it, but their process is different, and they use only transparent and very white bottles only. We will be able to use any coloured bottle also and we will be able to use yarn waste and as well as we are working to use fabric waste also. So, we will be different from them.
- MS Rajasekar:** What is the demand for this recycled yarn? Is there a regulation to use this recycled yarn all over the world?
- Madhu S Bhageria:** No, there is no regulation, but a lot of brands have taken a pledge to use the recycled yarn and they have taken a pledge, I think before COVID, that to by 2025 they will be using 100% recycled yarn for their products to name a few like, Uniqlo, H&M, Zara, and a lot others. So, they are ready to pay a good premium for the fabrics made from this and the availability is quite poor, so right now it is commanding a good premium in the market. In the way we are producing, our cost of production will not be higher than the cost what we are doing to produce the virgin yarn. So, it will be similar or lower than that. So, there is no risk. Whatever extra premium we get will be an additional margin over and above the virgin margins.

- MS Rajasekar:** That is right but looks like the way you are and now you are putting up a 1000 kg plant per day, by the time, you come up with your production, it should be 2024 I think in case you are successful.
- Madhu S Bhageria:** Yes, it will be beginning of 2024, you are right. This is 2021, 2023 sorry. Somewhere in first half of 2023, we should have the plant running.
- MS Rajasekar:** We should have the full-fledged plant running?
- Madhu S Bhageria:** Yes, full-fledged. This plant will be running in the next year only. I mean, last quarter of this financial year and once we are able to establish that then it will take another 12 months, so which would be end of FY2023.
- MS Rajasekar:** My question is, are you satisfied and successful with the small plant of 100 kg per day?
- Madhu S Bhageria:** Yes, we are quite optimistic. We have done a lot of trials outside also and we are optimistic that is why we are investing more money in going in the 1000 kg, so because whatever shortcomings are there, it is easier for us to correct in the 1000 kg plant. There is a lot of things, which we are not able to do in the 50 kg plant, so we have to go for a little higher capacity. So, there we can do some modifications and bring it to a level where we can take a pledge for the 100 tons per day plant. We are taking a lot of help from the experts in the industry. We have hired one or two consultants who are helping us to do all this work.
- MS Rajasekar:** This is a good area that is why we are investing and then all your efforts
- Madhu S Bhageria:** I think, R&D is a good area. We are also investing in developing different kinds of yarns also because of COVID, we have not been able to launch them properly, but we have made a lot of different varieties of polyester yarn, which will give different feel in the fabrics. So, once this COVID is over, we will be able to do that. You can see on the website we have developed a lot of different specialty yarns also.
- MS Rajasekar:** One small question is what is the total debt now as of date?
- Madhu S Bhageria:** Debt, term loans are around 530 Crores.
- MS Rajasekar:** So, that should come down by about 150 Crores by this year?
- Madhu S Bhageria:** It will come down by 100-150 Crores and there will be addition, yes, net it will be coming down by at least 100 Crores.
- MS Rajasekar:** One small question, are you increasing the promoter shareholding in the company?

- Madhu S Bhageria:** No. We are not increasing anything as of now.
- MS Rajasekar:** Thank you so much. Thanks for your answer. All the best Sir. Looking forward for this recycled yarn project.
- Madhu S Bhageria:** Thank you.
- Moderator:** Thank you. As there are no further questions from the participants, I would now like to hand the conference over to the management for closing comments.
- Madhu S Bhageria:** I would like to thank all the participants for sparing their time and joining us. Hope to see you again in our next conference call of Q2 FY2022. Thank you very much. Bye.
- Moderator:** Thank you. On behalf of Motilal Oswal Financial Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.