

FIL/SE/2022-23/69

14th February, 2023

National Stock Exchange of India Limited

Listing Department

5th Floor, Exchange Plaza, C-I, Block-G,

Bandra-Kurla Complex, Bandra (E)

Mumbai-400 051

Security Symbol: **FILATEX****BSE Limited**

Listing Department

25th Floor, Pheroze Jeejeebhoy Towers

Dalai Street,

Mumbai - 400 001

Security Code: 526227

Sub: Transcript of the Earnings Conference call held on 9th February, 2023 for the Q3 FY23 results of the Company

Dear Sirs/ Madam,

In continuation of our letter No.FIL/SE/2022-23/67 dated 7th February, 2023 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 9th February, 2023 for the Q3 FY23 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 FY23 Earnings Conference Call”

February 09, 2023



**MANAGEMENT: MR. MADHU SUDHAN BHAGERIA – CHAIRMAN AND
MANAGING DIRECTOR**

MR. ASHOK CHAUHAN – EXECUTIVE DIRECTOR

MS. STUTI BHAGERIA – SVP, CORPORATE STRATEGY

Moderator: Ladies and Gentlemen, good day and welcome to the Filatex India Limited Q3 FY23 Earnings Conference Call. 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, please signal an operator by pressing ‘*’ and then ‘0’ on your touchtone telephone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Madhu Sudhan Bhageria – Chairman and Managing Director, Filatex India Limited. Thank you and over to you, Sir.

Madhu Sudhan Bhageria: Thank you. A warm welcome to all of you attending this Conference Call for the quarter ended 31st December 2022. Joining me in this session are Mr. Ashok Chauhan and Ms. Stuti Bhageria. I hope you have gone through the investor’s presentation which had been uploaded on our website as well as on the stock exchanges.

A quick recap of the Results of this Q3 FY23:

We achieved a production volume of 99,969 metric tons in this quarter as against 97,169 in the previous quarter. The sales volume for Q3 is 100,468 metric tons as against 101,488 in Q2. The sales revenue achieved this quarter is Rs. 1,070 crores as against Rs. 1,163 crores in Q2 FY23. The operating profit EBITDA is Rs. 44.44 crores as against Rs. 46.26 crores in Q2. Net profit is Rs. 2.74 crores against Rs. 25.16 crores.

Comparing it on a year-on-year basis - the EBITDA in 9MFY23 is Rs. 165 crores as against Rs. 385 crores in FY22. Net profit is Rs. 71.31 crores as against 224 crores.

The financial numbers of Q3 FY23 give an impression of a gloomy situation, this is not so. We had a good operating performance in this quarter and we achieved the highest monthly sales volume in December 2022. As was in Q2, we operated at almost 100% of our capacity. The drop in profit before tax and PAT in this quarter is due to the weakening of the rupee in this quarter against the Euro which resulted in notional mark-to-market exchange losses on account of Euro loans.

China’s prolonged Zero-COVID policy continues to adversely impact the Indian polyester sector. Strict lockdowns and restrictions on people and goods have caused a major slowdown in the Chinese economy, resulting in a slump in domestic demand. Chinese polyester filament manufacturers have flooded international markets including India with low priced goods. Indian traders and customers have imported more than 200,000 metric tons of filaments in the last 9 months. This heavy import at low cost has forced domestic manufacturers to match import prices resulting in squeezed margins.

So, the battle in the Indian domestic market is still on. Low-priced Chinese products were available worldwide and obviously, the Indian manufacturers could not match the Chinese prices in global markets. Thus, huge incoming imports coupled with the loss of export volumes created

excess supply in the Indian market. The price churning was also rather extreme and needed adjustments every day.

However, there are signs of a decrease in the imports stream as China has finally relaxed its Zero-COVID policy. With the easing of restrictions in China, its domestic demand is gradually building up. Dumping of material in absence of demand has hurt Chinese players too and they are also looking at increasing their margins. These factors are having a positive effect on domestic margins in India and signs of improvement in the markets are also visible.

A quick update on plant operations and expansion projects:

We have completed all our ongoing capital expenditure plans and are now running the plant at full capacity. To improve our product mix and offer finer deniers, we have placed orders for some additional winders. These winders will increase our production capacity by 25 to 30 tons per day in semi-dull POY and is expected to be commissioned by the end of May 2023. To further enhance our product basket, we are putting up a new Cationic chips line at Dahej with a capacity of 70 metric tons per day which will be completed by March 2024.

In regards to our captive power plant, there is a downward movement in coal prices, although they have not reached pre-COVID levels. Therefore, we will be restarting captive power generation by mid-March.

The work on the recycled polyester pilot plant is in full swing. We are carrying out process trials with different kinds of waste and establishing norms for efficient operating conditions. It is a meticulous and time-consuming task and we are achieving good results. We have taken trials of spinning the recycled chips and converted it into cloth to test the parameters. The results are positive and encouraging.

Committed to reducing our carbon footprint, we partnered with Fourth Partner Energy for a hybrid wind and solar power project with a capacity of 10.8 megawatts. The wind turbines have been erected, the solar panels are being installed and the final approvals are under process with the state authorities. The project is on schedule and expected to start delivering power to our plant by April 2023.

In conclusion, the opening of the Chinese economy and enhancement of our product range are expected to drive improved profitability in the upcoming quarters. We are confident about prospects of our business in the coming years and remain dedicated to providing value to our shareholders and stakeholders. Thank you. Now you can ask questions if you have any.

Moderator:

Thank you. Ladies and gentlemen, we will now begin with the question-and-answer session. The first question is from the line of Niraj Mansingka from White Pine Investment Management. Please go ahead.

- Niraj Mansingka:** I just wanted to know some colour on the current last quarter's consumption. You said you are running the plant at 100% utilization; can you give some colour on the industry and as far as the PFY is concerned and also the downstream demand in India?
- Madhu Sudhan Bhageria:** The consumption is quite robust in downstream. As I have told that the imports were also there and also the exports have reduced. In spite of that, we have been able to run at full capacity and have been able to sell the full capacity so that means the demand in the downstream is quite robust. So, going forward as the imports will reduce and the exports will increase I think the margins will also increase.
- Niraj Mansingka:** I was more referring to if you look at the results of lot of companies which are indicating as an industry, do you see that the polyester-related non-cotton demand will continue to grow and which are the areas do you think might be contributing to the demand like is it the fast fashion or is it the school kids or is it the formal clothing?
- Madhu Sudhan Bhageria:** Now polyester is present in each and every field. Today, polyester is approximately even in MMF it is around 80-85% and if you see the whole basket of fibres it is more than 60%. There is no competition as far as price is concerned between natural and other MMF because it is one of the cheapest. Today, if polyester is Rs. 100 then cotton would be more than Rs. 300 and even other MMF are more than Rs. 150, and nylon would be more than Rs. 200-250. So, there is no price competition and the demand for polyester is rising day by day because the properties which have been incorporated in this, they are quite near to the natural fibres also and the other MMF and this is very easy to weave and maintain.
- Niraj Mansingka:** The other thing is related question was if you said that supplies from China was almost 2 lakh tons in 9MFY in estimate what would have been these imports a year back from China?
- Madhu Sudhan Bhageria:** A year back I think it could have been less than a lakh of tons and in the last 3-4 months it has increased quite a bit. Out of this 2 lakhs also, in the last 3-4 months it has been almost to the tune of around 30,000 tons per month - like October was around 30 then November 35 and December also around 35.
- Niraj Mansingka:** And has it subsided or do you think this is continuing?
- Madhu Sudhan Bhageria:** December supplies have come in January and now from February it has gone down because the prices in China have gone up and it is not too much of a benefit for the people to import we can meet those price expectations. It is not fully gone down, but I think it is going down maybe it has gone down by 30-40%. Also, the exports have also started trickling in because China has also started offering export prices are also increasing. So, we are able to compete in the export markets. So, as our exports had gone down by at least 75-80% so we were doing only 20% of the normal volume. Now I think we are going to 30-35%. It is too early because China has just opened up last week only and even the full labour force and there also the full downstream has not started. So, I think within the next couple of weeks we will see more effect of this, but definitely the prices will improve. They are also making losses in these kinds of prices. So, they

also want to come into green and increase the prices. They have kept their production low even though they have started, but they are not increasing their production capacity till the market stabilizes.

Niraj Mansingka: And other thing is you said about the combined hybrid wind and solar projects for your Filatex, what will be the approximate saving that you will see?

Madhu Sudhan Bhageria: I think we would say over anything around Rs. 10 crore to Rs. 12 crore annually. So, we will be getting around roughly 5 crore units per year and we will save around Rs. 2-2.5 per unit so Rs 12.5 crores. Also, the captive power plant will start by the second half of March. There also, if not in March, at least in the coming year we will have an annual saving of at least around 70-80 lakhs with the power plant starting up and as the prices of the coal go down I think the savings can still go up.

Niraj Mansingka: And other thing is on a capacity, now we are running full capacity even at India's low demand scenario any thoughts on expanding our capacity on the polyester side?

Madhu Sudhan Bhageria: We are just waiting for the markets to stabilize and give us clear-cut direction and we are doing small expansion like this 25 – 30 ton will expand in by May then we are putting one more stream to make the cationic chips where we can expand by 70 tons and we can also put more yarn for those 70 tons, but we are going a little slow seeing the market conditions.

Niraj Mansingka: And this would how much revenues for the winders and the cationic chips?

Madhu Sudhan Bhageria: 25 additional tons would be almost Rs. 12 crores from this 25-30 tons. And that Cationic 70 tons would be maybe Rs. 80 lakhs per day so maybe Rs. 250 crores. Overall by FY25, we will have around 300 crores of additional top line by these two things.

Niraj Mansingka: How much was for the 25 tons per day total yearly revenues?

Madhu Sudhan Bhageria: I could not get it.

Niraj Mansingka: The winder 25 tons per day

Madhu Sudhan Bhageria: It is around Rs. 12-13 crores per annum.

Niraj Mansingka: This is small one.

Madhu Sudhan Bhageria: Yes, it is very small. The investment is also around Rs. 12-13 crores and in the 70 tons the investment is around Rs. 40 crores. So, that we will be all doing from internal accruals. We are not taking on any new loans. And till now in this current year, we have repaid almost around 50 crores of loans. We have prepaid this other than our regular payments.

Moderator: Thank you. We have the next question from the line of Vishal Bagadia from Roha Asset Managers. Please go ahead.

Vishal Bagadia: Sir I had a few quick questions just wanted to know what are our current margins for POY and FDY in terms of EBITDA.

Madhu Sudhan Bhageria: Margins for the last quarter I would say POY would be around Rs. 4-5 and FDY would be in the vicinity of around Rs. 10 and then since this started improving I think we can already see an improvement of Rs. 1.5-2 in both the front.

Vishal Bagadia: So if we compare it with the same quarter in the last year we were somewhere in the range of Rs. 15 and Rs. 20 per kg respectively for both POY and FDY, so what is your view and expectation in the next one year time period how are we?

Madhu Sudhan Bhageria: This quarter we should at least do Rs. 6 and Rs. 12-13.

Vishal Bagadia: From Rs. 5 and Rs. 10 respectively?

Madhu Sudhan Bhageria: Yes, so we should have an improvement by Rs. 2-3.

Vishal Bagadia: And in terms of raw material side if we see what are our average prices for the quarter for PTA and MEG combined on a per Kg basis?

Madhu Sudhan Bhageria: On the last quarter which we say it is a combination of PTA and MEG average price Rs. 77.20

Vishal Bagadia: Sir so if see these were similar prices what we saw for raw materials in Q3 FY22 approximately?

Madhu Sudhan Bhageria: Q2 was Rs. 85.97 so there has been a drop of Rs. 8 in Q3.

Vishal Bagadia: But if we compare it with the same quarter in the last?

Madhu Sudhan Bhageria: This quarter is more or less stable or might be an increase of Rs. 1-2 so that also makes a lot of difference. So in the quarters like Q2 and Q3, we have also had inventory losses.

Vishal Bagadia: And what would be that ranging to approximately?

Madhu Sudhan Bhageria: I think it would be around Rs. 10-12 crores in both quarters.

Vishal Bagadia: Sir just wanted to have your view right now on how are you expecting the demand and the entire market to be on a medium or long-term basis and not on a short-term basis.

Madhu Sudhan Bhageria: I think it is very robust because see on average if we see the full year we will end up around imports of like 2,25,000 to 2,30,000 tons and then exports which have come down is also in the vicinity of around 3 lakh tons so half a million tons extra material will be in India and which has been consumed by the downstream industry. So, as and when the situation normalizes that means

the downstream in India requires another half a million tons of more material. So, downstream market, means people who are making fabric, have grown quite a bit. So, if the new capacities also are coming in a small size, they will be easily absorbed.

Vishal Bagadia: My next question is on what is our current working capital days?

Madhu Sudhan Bhageria: Working capital days will be close to 40 days. Cycle is 40 days otherwise we are basically working on a negative working capital because the credits available by our suppliers is 30 days to 60 days. So mostly we are using only LCs so utilization of cash credit is not there.

Vishal Bagadia: Sir, in terms of our raw material imports how much is that as of now as a percentage and how much of the imports would be from China?

Madhu Sudhan Bhageria: So, we are not importing raw material from China significantly. We have very low percentage some additives and other things. Main raw material PTA and MEG we do not import anything from China. We are importing mainly PTA from Taiwan and in very small quantities from Thailand and MEG is mostly from Middle East.

Vishal Bagadia: So, if we see as a percentage so that would be total how much?

Madhu Sudhan Bhageria: MEG would be around 60% and PTA would be around 35%.

Vishal Bagadia: And sir just wanted to understand how are we doing on the recycling plant like what is the update?

Madhu Sudhan Bhageria: Recycling, we achieved very good results recently and now we did lot of changes in the plant. So, just trying to get the quality. Now we are refurbishing the plant so that we can have a regular production. So, hopefully, by next month we should be able to produce. So, whatever we produce we could make decent yarn and fabric also out of that. It was very encouraging. I think in the next 2-3 months we should decide to go for a bigger plant.

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

Niraj Mansingka: So, just wanted to know Bhilosa has put up the capacity again after the incident that they had, so has this competitor plant started?

Madhu Sudhan Bhageria: More than 50-60% has started rest is under installation so maybe next 3-4 months that is also coming to production.

Niraj Mansingka: Do you see the impact still being there or do you think the demand will itself take grows so?

Madhu Sudhan Bhageria: I think demand will take care because already exports have started increasing and the imports have started coming down. So, that will take care of that because that will be hardly we will be

starting another 300 to 400 tons per day and today the industry is around 14,000 tons. So, that is not too much, maybe 2.5-3%.

Niraj Mansingka: One more thing on the cotton versus polyester do you see the last 6 months or 3 months there have been a lot of movement of usage of cotton towards more polyester in terms of blending side, in terms of blending for garments?

Madhu Sudhan Bhageria: Blending we have no idea because see blending people use polyester fiber which we are not producing. It is very difficult because this price difference is very much. Polyester fiber is today also price at around let us say around Rs. 100 and that raw cotton itself is more than 225, so even after reduced pricing 200 or 225 so it is very difficult to say that because of blending it will be used more.

Moderator: Thank you. As there are no further questions I would like to hand the conference back to Mr. Madhu Sudhan Bhageria for closing comments. Please go ahead.

Madhu Sudhan Bhageria: I would like to thank all the participants for sparing their time and joining us and hope to see you in the next quarter concall. Thank you very much.

Moderator: Thank you Mr. Bhageria. Ladies and gentlemen on behalf of Filatex India Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines. Thank you.