FILATEX INDIA LIMITED CIN No. L17119DN1990PLC000091

FIL/SE/2021-22/09
29th April, 2021

National Stock Exchange of India Limited	BSE Limited
Listing Department	Listing Department
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Bandra-Kurla Complex, Bandra (E)	Dalal Street,
Mumbai-400 051	Mumbai - 400 001
Security Symbol: **FILATEX**	Security Code: **526227**

Sub.: Transcript of Conference Call on 23rd April 2021

Dear Sir,

This is in continuation to our letter No. FIL/SE/2021-22/06 dated 16th April, 2021 on the Q4FY21 Earnings Conference Call on 23rd April, 2021. Please find enclosed the transcript in respect of the same.

This is for your information and records please.

Thanking You,

Yours Faithfully,
For FILATEX INDIA LIMITED

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Filatex India Limited

Q4 FY2021 Earnings Conference Call

April 23, 2021

ANALYST: MR. BHARAT CHHODA – ICICI SECURITIES LIMITED

MANAGEMENT: MR. MADHU SUDHAN BHAGERIA – CHAIRMAN & MANAGING DIRECTOR
MR. MADHAV BHAGERIA - VICE CHAIRMAN & CHIEF FINANCIAL OFFICER
MR. ASHOK CHAUHAN - EXECUTIVE DIRECTOR
MS. STUTI BHAGERIA - SENIOR VICE PRESIDENT, CORPORATE STRATEGY

Moderator: Ladies and gentlemen, good day and welcome to Q4 FY2021 Results Conference call of Filatex India Limited hosted by ICICI Securities 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 "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Bharat Chhoda from ICICI Securities Limited. Thank you and over to you Sir!

Bharat Chhoda: Thanks Neerav. On behalf of ICICI Securities, let me welcome you all to the Q4 FY2021 earning call of Filatex India. From the management today we have Mr. Madhu Sudhan Bhageria, Chairman & Managing Director; Mr. Madhav Bhageria, Joint Managing Director & CFO; Mr. Ashok Chauhan, Executive Director and Ms. Stuti Bhageria, Senior VP, Corporate Strategy. Without any further delay I would now hand over the call to Mr. Madhu Sudhan Bhageria for his initial comments post which will open the floor for Q&A. Thank you and over to you Sir.

Madhu Sudhan B: Thank you. Good afternoon, a warm welcome to all of you attending this earning call for Q4 ended March 2021. I presume you would have certainly gone through the presentation, which has been uploaded on our website as well as on the stock exchanges. I am delighted to convey the exuberance in the market witnessed in Q3 continued for several weeks almost through the next quarter. This quarter under review has been more than extraordinary. If Q3 was extraordinary then Q4 were stupendous. Let me quickly go through the results of this quarter Q4 FY2021.

The revenue from operations are Rs.853 Crores in this quarter as compared to Rs.722 Crores in Q3 FY2021 and Rs.667 Crores in Q4 FY2020. In terms of aggregate revenue, the revenue for FY2021 is Rs.2227 Crores as against Rs.2782 Crores in FY2020.

Almost full capacity utilization of value-added products in this quarter has helped us achieve healthy operating profits. The EBITDA for this quarter is Rs.189 Crores as against Rs.120 Crores in Q3 FY2020 and Rs.62 Crores in Q4 FY2020. EBITDA for the whole year is Rs.347 Crores which is a 56% improvement over last year number of Rs.222 Crores. The PBT for Q4 FY2021 is Rs.173 Crores as against Rs.91 Crores in Q3 FY2021 and Rs.32 Crores in Q4 FY2020. PBT for the year FY2021 is Rs.240 Crores which is 96% jump over 122 Crores in FY2020.

In the fourth quarter the domestic demand for yarns was good, which is evident from the financial numbers. Prices and margins remain firm in the domestic market, increase in duty rates of cheap imports of fabrics and garments had a curbing effect which almost contributed to the firmness in the margins. The demand was robust as there was just about enough supply. Export market opportunities were also in plenty but could not be encash fully due to very erratic shipping schedules and rather steep hike in shipping rates. Fourth quarter was better than the third quarter and that is saying a lot as the third quarter was quite good. It looked like a stable business environment with firm demand and good margins; however, we could feel the tremors of another calamity around mid-March 2021.

The second wave of COVID gave rise to high positivity rate in Maharashtra and Gujarat. The downstream demand slowed down, and inventory started increasing. We moved to Q1 FY2022. As we moved to Q1 FY2022 there are concerns about adverse impact of a second tsunami type of wave of Coronavirus which is upsetting the rhythm of the industry. Once again there is disruption of daily life in almost all parts of the country, restrictive measures through containment of movement of people, goods and services, stricter protocols of quarantine measures have reduced the exuberance.

There is an atmosphere of fear against this dreaded disease which gives little warning. Maharashtra and Gujarat the major textile hubs for synthetic fibers are some of the worst affected. The infection rate in this wave is much higher than the first one. The movement of traders and buyers is restricted. The workers who had returned are wearing once again and fearing the reputation of hardships faced last time, have started going back to their villages.

Government, state, and center levels are trying their best to restore confidence in general public. India has gone through a massive vaccination drive; we have had a vaccination camps at our plants and all eligible people as per government criteria have been vaccinated. However, the situation is grim and medical facilities is stretched beyond their limit and are breaking down.

What we are witnessing in India is unprecedented and no one knows how to beef up the medical facilities. The effects of the total lockdown was very damaging to the economy which led to a massive job loss situation. No one is keen on a repetition of the same; however, given the surge and tweaking health infrastructure, it may be imposed again to control the surging rate.

With prayers on our lips and hope in our hearts, we are ready for meeting any kind of disruption that may be imposed.

We have reviewed our plant capacity and find that we can add some more POY around 100 tons per day and consequent Texturizing capacity as a part of debottlenecking of semi-dull and bright lines. The plants have been finalized and discussions are on with the equipment suppliers. The effect of stimulus through government policies for textile industry in which polyester now plays a dominant part is quite clear and has taken a visible shape.

Our global competitiveness has also improved. On the export front though there are good inquiries the opportunity is not fully encashed as there is still shortage of containers and freight rates continue to be high. Despite these constraints we managed to export 10,000 metric tons in this quarter compared to 12,000 in Q4 FY2020.

We have been consistent in our assessment the Polyester will be the dominant fiber and would lead the revival and resurgence of Indian textile industry in the global trade.

In spite of the havoc caused by the second wave of the virus, we are sanguine about the growth of polyester business in the coming years. The Government of India has realized the importance of textile industry in terms of job creations due to its innate nature. Textile businesses includes apparels and garments which are rather labor intensive and skill sets are easily replicated to new entrants of workforce.

Now. the focus of government is not restricted to cotton only. Government of India has also realized and recognized the importance of synthetic filaments and fibers and its increasing role in global textile trade. The policies are being reviewed and modified to remove the hurdles for accelerated growth in fabrics and garments made from manmade fibers.

Industry genuine demand for correcting the inverted GST structure for polyester fibers is still pending as government officials and GST council members are grappling with many other issues. The foremost being the containment of COVID. We remain optimistic for a favorable outcome as the concerned officials have been supportive to this subject in principle. Uniform GST rate across the whole value chain will accelerate the growth as well as benefit smaller units by easing stress on working capital. We believe the biggest benefit of one GST rate will boost the business prospects of downstream industry which would lead to more investment in downstream products.

Government has also announced production linked incentive PLI in which manmade fiber garments are the main recipients. Industry associations have represented inclusion of synthetic yarns fibers and fabrics under these schemes. There are some signals about international sentiment against Chinese supplies; opportunities arising out of such sentiments have to be grabbed quickly, so that the prospect of polyester filament and fibers business in India could improve.

Our captive power project of capacity 30 MW after facing delays due to national lockdown is back on rails. Commissioning activities, though somewhat hampered by COVID, have started. We are hopeful that we will be able to commission the plant by May beginning.

A brief update on our R&D efforts on recycling project:

I have had several opportunities to respond to questions about progress of recycling project and time schedule, etc. Let me take the opportunity to elaborate some of the very basic points about recycling polyester, generally referred to as PET which is not biodegradable. As the volumes of plastic waste became visible in public places, beaches, tourist destination, it caught attention of not only several international organizations monitoring the environment, but the public at large. Initial efforts of the industry were focused on collecting pet bottles, cleaning them, shredding them into flakes, which were maintained and homogenized.

Many plants came up and China became the key player in making fibers from waste bottle. Several plants came up in India also. Bottle collection started from rag pickers to scrap dealers became fairly organized. The bottle scrap has no intrinsic value unless there are units to process this scrap into a useful material. This process is called **mechanical recycling**. However, this step though quite effective for bottle and container grade polyester served a limited purpose as it does not address the utilization of textile waste.

Among the two primary uses of pet polymer the largest portion is consumed to make polyester textiles. The balance being solid state razor and higher-grade engineering plastic. The proximate split between these major classes is 65% fiber and 35% solid state razor. To get an idea about the volume of pet fiber it is reported that pet fiber represents about 60% of all textile fibers produced globally, which was around 115 million tons in 2019.

It is a fact that over the last decade the growth in consumption of textile fibers has mainly come through polyester only. The growth of all-natural fibers has been less than 5% whereas manmade fibers accounted for 95%. Polyester due to its durability, ease of washing and maintenance has replaced cotton and other natural fibers in many segments - leisure wear, sportswear, lingerie, innerwears, home textiles, auto seats and covers, etc. The list is getting longer. Such rapid increase has necessitated the need to address the issue of textile grade polyester and its disposability or reutilization.

Let me add in terms of ecosystem, all textile fibers whether natural or synthetic though essential create environmental issues like consuming water, polluting water streams, washing acts microfibers which are now settling in oceans, etc. Our polyester is a polymer of two hydrocarbon products, and it can be chemically reversed that is de-polymerized.

Many companies have experimented with this idea and there is a lot of study material available. It is only after the sustainability of textiles gathered momentum that recycling by way of reversing the polyester towards the virgin material has come back in focus. This process is called **chemical recycling**. A non-profit organization textile exchange challenged over 50 textiles April and retail companies including giants like Adidas, H&M, GAP, and IKEA to increase the usage of recycled polyester up to 25%. As technology development is an expensive and time-consuming process, the retailers are willing to pay premiums for all certified recycled fibers.

Coming back to our R&D efforts the lab trials were successful. A small pilot plant of around 50 kg per day has been made which is being used for trials. Each process parameter has to be repeated many times to ensure that results would be the same when scaled up. Our efforts have been hampered in terms of getting specialized small sized equipments from domestic vendors who are mostly located in Pune, Ahmedabad, Vadodara, and some overseas vendors. And all these specialized vendors have suffered on account of restriction imposed for containment of COVID. If these local constraints continue to persist and cause delay in our efforts to freeze process parameters at the existing pilot plant, we will go for a larger capacity plant of around 1 ton per day for further trials before going ahead with a full scale plant.

I hope this clarifies some of the questions that you may have had about recycling. Thank you for your attentive listening. Now let me open for session for the questions. I would request that please ask one or two questions at a time. Once I answer them then you can ask more, do not ask too many questions in one go. Thank you.

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

Sudhir Bheda: Good afternoon Sir and hearty congratulations on stupendous set of numbers, healthy cash flow as well as considerable reduction in debt, all your entire team deserves congratulations. Sir my question is just one question. When you say that Q4 is an extraordinary quarter so what kind of sustainable margin do you foresee in FY22 in view of our good savings will happen in power plant as well as we will also do some expansion in value-added product. So, what kind of sustainable margin do you foresee for

2022, and what kind of debt reduction are you planning for the current financial year?

Madhu Sudhan B: Thank you. See barring the unordinary circumstances which we are going through once these things comes to a decent level and I think the COVID situation improves. We feel we will be able to do margins which are better than Q3 and we will also have an extra saving of roughly annualized around 45 Crores in our power cost from this power plant. So these kind of margin we should be able to have once the situation of COVID is under control. During this situation it is very difficult for anyone to tell what kind of margin we will have, if this situation prevails.

Sudhir Bheda: No, I am asking in the normal situation?

Madhu Sudhan B: Normal situation we will have margin which will be better than Q3 because in Q4 we also had some stock gains because there was a quite a bit of rise in the raw material prices. So there was a stock gain also which is being reflected in the margin. but we will have margins which will be much better than Q3 for sure and over and above that we will have savings of power that is what I foresee and about debt, we think we should be able to reduce at least debt by 100 to 150 Crores in this year.

Sudhir Bheda: That is good news and what kind of topline growth we expect in FY2022?

Madhu Sudhan B: FY2021 if I take over that we should be able to do more than 50%.

Sudhir Bheda: Thank you for giving me the opportunity.

Moderator: Thank you. The next question is from the line of Agastya Dave from CAO Capital. Please go ahead.

Agastya Dave: Congratulations. I hope everyone is safe. Sir you mentioned 50% revenue growth what was the base year?

Madhu Sudhan B: So 50% revenue growth I am talking about FY21, on FY2020 we talk then the growth could be around 25% to 30%.

Agastya Dave: Sir I have a query on spreads. In the current round of disruption what has happened to the spreads, have they completely tanked or are they still at respectable levels?

Madhu Sudhan B: No, they have definitely come down, but still we are making a reasonable EBITDA when we will be able to take out cost and have some profit, but we have to reduce also certain production also around 15% productivity we have reduced since last three, four days. Before that we were almost running full. From last four days we have reduced 15% production because the stocks are piling up. See but these raw material prices are firm so we do not mind increasing the stocks as in when the situation improves, we will be able to sell those stocks, and we are focusing on exports a little more to augment the local market.

Agastya Dave: Sir and you mentioned 100 tons of POY in bright line, which you can do by debottlenecking. So this is over and above the existing preannounced capex programs right?

Madhu Sudhan B: Yes, this is a new capex which will be taking it is a 100 tons of POY which will be a mixture of bright and semi dull both and this will become operative by first quarter FY23.

Agastya Dave: Sir what would be the capex for this?

Madhu Sudhan B: For both including POY and Texturizing the capex would be around 175 Crores.

Agastya Dave: Sir one final question. This is on employee cost you have controlled it beautifully this year and in my previous interaction with your company and like the impression I get is that there will not be a disproportionate increase in employee cost going forward even as we expand capacities. So you are still holding to that?

Madhu Sudhan B: I could not get which cost you are talking.

Agastya Dave: Sir, employee costs.

Madhu Sudhan B: Employee cost, yes, it will be disproportionate to the incremental cost. It will not be same but see there is some increment also you have to give every year. But the number of employees will not increase a lot as we will be mostly increase labors, but on the senior management side we will not be increasing. That is the only difference and also the administrative staff remains the same.

Agastya Dave: 3 bookkeeping questions. The gross block, the fuel costs, for the entire year and the current maturity of long-term debt?

Madhu Sudhan B: You want to know the values.

Agastya Dave: Yes Sir, gross block, fuel costs and current maturity of long-term debt March ending?

Madhu Sudhan B: Current maturity is around I think 36-37 Crores and let me check what the fuel cost is. I will answer you just give me a minute; we will just check up in the accounts.

Agastya Dave: Thank you very much Sir. Fuel cost for the year and for the quarter and that is it for my side Sir. All the best. Stay safe Sir. Thank you very much for your great performance. Thank you.

Moderator: Thank you. The next question is from the line of Ashish from Toptal. Please go ahead.

Ashish: Sir in the last concall you said a lot of imported fabrics are not coming in hence you are getting increased demand for your product so any change in that because you said because of people are not able to travel and trade issues are there so any relief on that front so that demand for our products might be impacted.

Madhu Sudhan B: No that is continuing to be same the reports are still very low. There is no change in that situation.

Ashish: Again and if you know if the situation will persist.

Madhu Sudhan B: So I think so it will persisting. W ell see people get used to using local things there is no need for them to import.

Ashish: Thanks that is all from my side Sir. Thank you.

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

Maulik Patel: Thank you for the opportunity. Really very good set of numbers. Just few questions, so one I think on the export front you mentioned that in this quarter you shipped around 10,000 ton compared to the 12,000 ton despite all the logistic challenge and given the given the domestic market is very weak is export as profitable or the profitability in the export business is still good?

Madhu Sudhan B: Normally exports are happening at similar or slightly better profitability than India in the local market.

Maulik Patel: Given that you have weakness in the domestic market, and you mentioned that the raw material PTA and MEG prices are covered?

Madhu Sudhan B: No, it is not weakness in the domestic market so we are trying if we can increase the exports for the time being but see all over the world also this pandemic is creating problems which are the major exporting countries like Brazil, Egypt all these countries and Turkey they are also having problems from the COVID. So the demand is low there also, but whatever best can be done we are trying to get.

Maulik Patel: So in the last year in FY2020, 15% of your revenue was from the export and what could be the number this year and I mean we continue to maintain this range of whatever 15% for the export business?

Madhu Sudhan B: See this year the number was around 11%.

Maulik Patel: Just last question that is again on the bookkeeping side can you give the average PTA and MEG prices for this quarter and post commissioning of this power plant, in the earlier con call you mentioned that you will have on your a saving of around Rs.2 at a unit level at the electricity cost so that still remains the same?

Madhu Sudhan B: Yes, that remains more or less same.

Maulik Patel: Because internationally the coal prices have also gone up…

Madhu Sudhan B: You are asking about this quarter PTA prices average was Rs.54; MEG was 47.30 and what else this quarter.

Maulik Patel: Then I think when you mention that there could be some inventory gain this quarter given there was an increase in the PTA and MEG price, but that number might not be greater than the 10 to 15 cr.

Madhu Sudhan B: Blended polymer cost was Rs.62.52, which was around Rs.48 in the last quarter. So there is a gain of approximately Rs.14 increase in the raw material prices. So that would increase the stock value, so that is what I mentioned.

Maulik Patel: Thanks.

Moderator: Thank you. The next question is from the line of Aditya from B&K Securities. Please go ahead.

Aditya: Thank you for the opportunity. I just have two questions, one is like, so as we like the demand for cotton is largely coming from home textile segment and knitted segment. So for our business which segment is exactly contributing to our demand and second also like you have said like we will be achieving margins which will be better than Q3 level so what exactly like are they sustainable like for the near future like barring the near-term shocks?

Madhu Sudhan B: Yes, so margin is better than Q3 are sustainable hence the demand overall has been good for all the textile sectors whether it has been upholstery or fabrics and everything so everywhere the demand was quite good.

Aditya: Thank you Sir. That is from my side.

Moderator: Thank you. The next question is from the line of Naidu an Individual Investor. Please go ahead. Due to no response we move on to the next participant, the next question is from the lien of Sri Shankar from InCred. Please go ahead.

Sri Shankar: First of all congratulations on a very good set of numbers and you have continued to deliver as you promised earlier. I have just two three specific questions. The first question is because the raw material prices are so much fluctuating, it is pretty difficult to look on a quarter-on-quarter basis in your gross margin and what did you think is a more sustainable growth margin that you can have given the product profile that you have over a longer period because if I look from last quarter of Q4 of FY2020 to Q3 then Q4 of FY2021 the gross margin variation is quite huge and that comes and hits your EBITDA also and you have done very well so what do you think is the average gross margin that you can have in the current product?

Madhu Sudhan B: See in our industry you do not need to look at the margins as a percentage of the topline because the topline as you rightly said it changes with the change in the raw material prices so if you look at the EBITDA as a number that is a better parameter to see the growth of the company and the ROCEs and ROE because the topline keeps changing with the prices of the raw material and also sometimes we can vary the volumes with the same machinery depending on the season and the profitability from the same machine we can make 100 kg same machine can also produce up to 200 kg in yarn. So that we have to take a decision seeing the market and the margin. So the better way is to look at the EBITDA margins per se not at the percentage or per kg, sometimes if we produce chips more than the EBITDA per kg would also go down so it is better to look even though it will be contributed some little bit to the EBITDA. So we have to produce to take that margin of 2%, 3% what we get on chips. So it is a better way to look at the absolute number of EBITDA.

Sri Shankar: That is the reason why Sir I was mentioning that rather than looking at a quarterly number would rather like look at in a full year number because probably it takes away the volatility of…?

Madhu Sudhan B: Full year is okay, full year it is definitely a better barometer because they are certain cyclical problems, but otherwise even if you look at quarter-to-quarter if you look at the absolute EBITDA number that would be much better than looking at the percentage of EBITDA on the topline.

Sri Shankar: The second question was regarding to a query that you mentioned that you probably will be commissioning the power plant by May is it right and it was supposed to get commissioned this month right now it has got postponed and in your existing facility how much of incremental capacity that you can add or you will have to go for a new facility for your expansion program that is the next question and can you also spell out your capex program apart from that 175 Crores that you have mentioned, here the pilot project that you had in terms of recycling projects have you finalized on the place where it is going to come up and the project cost itself?

Madhu Sudhan B: What was the first question? I initially said please ask one question at a time again you can ask question only by the time you finish. Sorry, which was the first question you think.

Sri Shankar: My first question was what is the capex program that you have?

Madhu Sudhan B: I will answer that then you ask again. Right now we have a capex program of 175 Crores to add 100 tons of POY and Texturizing and after this I do not think we will have a spare capacity in this plant and the unit and both these things will be coming in the same location and anything further we will have to go for a new location. For further capex, we have plans to put this recycling plant there the capex will be around 250 Crores but that will only start end of this calendar year, but and the most portion of that will happen in next financial year.

Sri Shankar: That is the recycling project is going to cost on 250 Crores correct.

Madhu Sudhan B: Correct so that will be recycling waste to chips and making chips to yarn.

Sri Shankar: And what is the capacity that we are seeking with that?

Madhu Sudhan B: We are thinking about putting around 100 tons per day.

Sri Shankar: 100 tons per day

Madhu Sudhan B: Yes.

Sri Shankar: Thank you and congratulations again for a very good set of numbers and continuing to maintain it. All the best.

Madhu Sudhan B: I will just answer the question which one gentlemen asked about the power and fuel cost. So this quarter our power cost was 57.7 Crores and year as a whole it was 167.6 Crores, and the term loan current maturity is 37 Crores. I think any other thing if I have left out please let me know I will answer that.

Moderator: Thank you. The next question is from the line of Madhukar an individual shareholder. Please go ahead.

Madhukar: My two questions, one is on power plant and second is on recycling. The power plant question is what is now that you have commissioned and what is the final cost of the plant per megawatt?

Madhu Sudhan B: The final cost would be around this includes GST also we will be having a cost of around 165 Crores for 30 megawatts.

Madhukar: And what will be the cost of power?

Madhu Sudhan B: Power running cost would be around Rs.4 to Rs.4.10 per unit.

Madhukar: Now this Rs.4 will contain how much cost of coal, how much finance, and how much others?

Madhu Sudhan B: No, this is no finance cost. This is coal and operating cost of manpower and certain additives and maintenance cost.

Madhukar: So coal cost will be how much inward cost?

Madhu Sudhan B: Coal cost would be around Rs.3.50.

Madhukar: So only 0.50 paisa is the balance cost.

Madhu Sudhan B: Yes, I am saying that is for operational cost, not interest or depreciation, interest and depreciation is separate.

Madhukar: Now where from the coal will come?

Madhu Sudhan B: It will come from there is a port in Dahej only, Adani from there we have tied up for the coal.

Madhukar: It will be imported.

Madhu Sudhan B: It will be all 100% imported.

Madhukar: What is the calorific value of the coal average?

Madhu Sudhan B: Depends what we feel which is the better price we can use from 3700 to 6000 whatever.

Madhukar: 3700 to 6000.

Madhu Sudhan B: Yes.

Madhukar: But generally people use imported coal at least of 6000 so the 3700 would be waste to transport it?

Madhu Sudhan B: We have to see which is the better cost per calorific value of the coal that we will use.

Madhukar: What will be the thermal efficiency of this plant?

Madhu Sudhan B: I have no idea. I will have to ask my people and let you know.

Madhukar: Please, let me know. Now the second question is about the recycling. I understand that the recycled product cannot be better than the original product is it true?

Madhu Sudhan B: No. It is not true. It can be similar to the original product.

Madhukar: So far the recycle product prices were about 20% lower than the new product?

Madhu Sudhan B: I think you did not follow. We are doing a chemical recycling where we will be converting the waste back to raw material state and then cleaning all the impurities and then converting back to the polyester. So it will be as good as virgin polyester. We will be not using the polyester waste directly just melting and using it what people are doing now we will be depolymerizing it, means taking it back to its original raw material form and then taking out all the impurities from there and then again polymerizing it so this technology is very, very recent, and very few people involved are doing it and at a very, very small scale. This is a new technology which people are developing. We are also on the developing stage of this technology.

Madhukar: Sir only one producer Ganesh Poly which is trying this technology.

Madhu Sudhan B: Ganesh Poly is doing mechanical recycling they are just washing the flakes melting them and using them they are not depolymerizing.

Madhukar: Yes, but they are trying and not succeeding.

Madhu Sudhan B: I cannot comment on that.

Madhukar: Very true. Now Sir the advantage they see in recycling is that the government has passed some order or some resolution that those who want to make fresh bottles of pet will have to take certificate of recycle and that can take about Rs.10 rupees a kilo for giving certificate if you are producing a recycled material?

Madhu Sudhan B: I know but what we will be producing a recycled yarn. At the moment, a few companies whosoever are doing are getting a margin of Rs.60 to Rs.70 kg over and above the virgin.

Madhukar: Sir, that is because some of the western country people are trying to encourage the recycling. That may not happen in India, in India nobody is worried about recycling?

Madhu Sudhan B: No, but we are sourcing all their products from India and Far East countries only. They are not producing any garments. They are sourcing all these from countries like us only and there is a shortage of recycled filament yarn and fiber available through chemical recycling. So it is not available the volume which they want, and they have targets to go up to 50% by 2025 maybe now they will change the target because of COVID but there is a very big demand of this product.

Madhukar: The Ganesh Poly has been recycling and has not got any premium so far on the virgin?

Madhu Sudhan B: Sir you are not able to understand. I cannot say again. They are doing the mechanical recycling and we are talking about chemical recycling so why are you comparing Ganesh with us. We have not started as yet. Once we start then you will know. There is a company like Polygenta in India which is doing chemical recycling, and they are fetching a premium of Rs.60 to Rs.70 you can ask them. I am not talking something which is not happening. There are companies in the world who are already trying to do this.

There is a Loop Industry, there is a Carbios, there are a lot of companies working on this. You are free to do your research. You are just talking about Ganesh. Ganesh is doing a mechanical recycling I have told you again and again.

Madhukar: I only am talking about the recycled price and the original price?

Madhu Sudhan B: No, chemical recycle of this product is not available in the market. Only Polygenta is making in India and they are getting a premium of Rs.60 to Rs.70 per kg.

Madhukar: Second thing about three, four, five years back the resolution was passed to ask all pet users to get the certificate of recycle?

Madhu Sudhan B: No, there is no such resolution by the government as of now.

Madhukar: Thank you.

Moderator: Thank you. Next question is from the line of Sonal Minhas from Prescient Capital Ventures. Please go ahead.

Sonal Minhas: I have two questions, one is, Sir the first question is with regards to what has been happening in the last two to three quarters in terms of better realization and which is basically tuning into margins. Typically we have seen industries where such kind of let us say, you could say a structural shift in demand supply happens people start adding capacities, there is a little bit of challenge in terms of competition coming in so I have two parts to this question one is that how are you seeing your competitors behaving is there enough for everyone to chew in terms of demand. I will pause here I just want to know how is competition behaving vis-à-vis you I just want to get a holistic picture there and I will ask the second question after you answer?

Madhu Sudhan B: As far as competition is there, we are basically five or six major player in this industry and to name a few Bhilosa is there, Wellknown is there, we are there, Alok was there who has been taken over by Reliance, Reliance of course is the biggest and then Sanathan is there, Subbulakshmi is there, these are the major players. Right now, there is no major expansion happening. Only one capacity will get added in the next year mid of next year which was wiped out in FY20 February there was a fire in one of the plants. So that capacity was wiped out. So he has ordered some machine which will be getting commissioned by next calendar year. Other than that nobody has taken up any expansion plan as of now and whatever people would decide would also take at least two, two and a half years because the availability of raw material is also scarce in India at that time like PTA. We do not have enough PTA for new expansion. Already we are neck-to-neck in the capacities. MEG of course we are importing. MEG does not matter. It is small compared to PTA and also China is also importing MEG from Middle East and we get a better price from Middle East so that is not a problem. But PTA plants are a problem and the first new PTA plant expected is in FY2024. Reliance has not announced yet, but I think they are also planning to put up a PTA plant which will get commissioned in calendar year 2024 and also in calendar year 2024 IOC is also coming Indian Oil is coming with a PTA plant in Paradip. So I think most of the capacities people would plan would be in line with these PTA plants. When these will be available because it is very difficult to import such huge volumes and keep the plants running. Local availability is not there at the moment.

Sonal Minhas: When you talk about like structural change in pricing and the margins and you say that Q3 margins will hold largely a little higher than that is the timeline for that linked to capacity coming in 2024-2025 or when you because you said in the last one?

Madhu Sudhan B: I do not think so, see, it is my belief that even the capacities which coming will not hamper because first of all in next three years we will have a decent growth. Normally the growth in industry has been around 9% and we should have more growth because now the government is focusing on manmade fibers for downstream and they have put a lot of restriction. Even China where they are exporting the margins they have increased and internationally the demand is rising by almost 3 million tons every year. So I do not think we should have a problem even if the two or three plants come up they will not even add up to more than 600-700 thousand tons so today the volumes which we are doing as an industry would be around 4.2 to 4.4 million tons. So in three years we would need a more than a million tons more and I do not think more than a million tons would come up in next three years.

Sonal Minhas: Typically Sir your competition you would know them well so like how do people behave in terms of pricing discipline given when capacities come like do people dump or do people because they have to service debt just trying to understand?

Madhu Sudhan B: No, see now it is an international market even if this price comes then gets padded by exports of course there can be a slight reduction in the margin but then people start exporting more.

Sonal Minhas: So you have better availability there?

Madhu Sudhan B: There is no big issues in that, and a lot of downstream machines are also coming because in fabric and garments lot of machines are getting imported because they have also enjoyed good margins and those machines, and they have the raw materials available so there the expansion is much more rapid than what will be happening in the yarn market.

Sonal Minhas: So that will basically provide a cushion?

Madhu Sudhan B: So we will have better demand than what we will be able to supply.

Sonal Minhas: Sir last one, two years ago whatever have been reading in the calls you said that you are moving towards value add and the brighter yarns and the realizations are higher so like what is the mix right now as we speak?

Madhu Sudhan B: Right now see barring chips we have reduced our POY also quite a bit. So most of the things we are converting to value added and whatever is left in this next one year we plan to convert almost everything to value added. POY might be very small volumes left.

Sonal Minhas: That is structural so let us say this is not opportunity led that this year this can happen this way and next year this the mix may become 50:50 or whatever because drop in the demand perspective.

Madhu Sudhan B: No, see once we have put our capacity those will always remain. So we will be making value added only. So value added we mean is DTY and FDY those are more value-added because they directly go for making the fabric there is no more process of the yarn to be done and there you have a vast market international as well as whole of India if you make POY you are confined to very few buyers and chips may be lesser buyers.

Sonal Minhas: So that is like the structural shift and hence that gives you the confidence that the margins. The company is entering a different margin profile from a longer-term perspective?

Madhu Sudhan B: Correct.

Sonal Minhas: Sir a follow on question on this one, we have seen that your return on capital is structurally going up but we have been adding capacity year-on-year so you can just look at the free cash flows that you have been generating and this is more for us as minority shareholders trying to understand like do we expect the company to generate free cash flows net of capex from the coming year onward?

Madhu Sudhan B: Last year also we generated free cash flow, net of capex and reduction in debt also so for the previous year we were doing that and deemed fit to be suitably reward the shareholders with that money.

Sonal Minhas: Just a last question, the pledge on the stock, I think, just wanted to understand what is your longer-term plan around that?

Madhu Sudhan B: I think in this year we will be able to release the pledge. Basically, this pledge is not a borrowing we have done. These have been taken by the banks as collateral against term loans and all. So, now our debt equity and our current ratios all have improved significantly. We can ask the bankers to please release our pledges, or we will be in a position to repay all their rupee loans; maybe we will switch the banks if they do not agree.

Sonal Minhas: Got it. So, if we were not doing any new capex, the debt could have come down to zero this quarter, I am assuming that or that you would keep some debt on the books still?

Madhu Sudhan B: No. We will keep some debts on the book like ECBs we will keep on the books. We will try to first reduce the rupee debt and in the new venture like for Texturizing we might take debt because we will get subsidies on that. So, wherever we feel we get a benefit by taking a debt we will take that, but we can reduce our already existing rupee debt from the money left. So, overall debt will go down that I can assure you in this year.

Sonal Minhas: Sir, if I could just squeeze in a last question regarding what you see this quarter. I understand it is not in anybody's control?

Madhu Sudhan B: It is difficult to answer seeing things in today's situation.

Sonal Minhas: I understand. I am not even pinpointing or getting on that, just understanding that the preparedness of the company for let us say the ramp down in production what is being the learning in the last one year and how do you plan to enforce it?

Madhu Sudhan B: Last year what happened was the raw material prices fell because there was a total chaos in the world which happened. This time you will see there is not much chaos in the world even though the numbers are rising. So all commodity prices are all still stagnant or rising so we do not feel that even whatever best we can do and store the material to the extent possible we will run the plants. See last time the government forced us to close the plants at least for six seven weeks and then the labour also went away 100%. Now the labor is going but still we have enough labor to run decent capacity. It is not that all the laborers are running away, and some are coming back also some have gone to UP for elections and all, so they are coming back also, and I think by May end labor starts coming back.

Sonal Minhas: Fair enough. Thanks a lot. These are my question. Thank you, Sir.

Moderator: Thank you very much. The next question is from the line of Anik Mitra from Finratha Research and Advisory. Please go ahead.

Anik Mitra: Good evening Sir. Congratulations for good set of number. My question is there is like globally MMF and cotton ratio is somewhere around 72:28 what I got from Textile Ministry's data in

India, cotton has more weightage so how much further room you are anticipating in favor of MMF and like how the mms can replace or up to what extent mms can witness cotton in India going forward?

Madhu Sudhan B: See first of all MMF is not replacing cotton. What is happening is the incremental growth is all coming from MMF because the availability of cotton worldwide is reducing so that is why it is happening. Right now in India, I think the ratio is 55 to MMF and 45 natural. As the growth in India would happen the MMF share automatically will increase because there is no scope to increase the natural fibers. So that is what is happening. Also the quality of MMF has been improved considerably. Now all we are you will not even come to know whether MMF is there or not. All your sportswears are now 100 MMF. So that is one example I am just giving. So now MMF is a dominant fiber and also see MMF is less polluting. People feel MMF is very polluting but to make cotton to yarn and then yarn to fabric and garment there is lot of MEG, water usage compared to what is used in MMF, chemicals which are used to make for cotton require lot of water anything. Now in MMF we can do dope tide also where there is no water requirement. We put colors while making the yarn. So all those features now are in favor of MMF, and people are using more of MMF because polyester filament is also cheaper than all the natural fibers. It is almost less than 50% the cost of the natural fibers.

Anik Mitra: You told 65% is MMF and 35% in India.

Madhu Sudhan B: No 55% and 45%.

Anik Mitra: 55% and 45%.

Madhu Sudhan B: Global like you said is 69% and 31% but in India it is around 55% and 45%.

Anik Mitra: Okay still you are saying in India also it is in favor of MMF?

Madhu Sudhan B: Because the requirement new requirement cannot be made by cotton. There is no availability of cotton more than a certain volume. So the new requirement is all is being met by polyester and other manmade fibers and polyester is almost like 80% of the man-made fibers.

Anik Mitra: Got your point. Another next question is the PLI scheme like how much benefit we can retain in terms of polyester and all?

Madhu Sudhan B: It has not been announced as yet. Whatever we know and whatever has been told they are bringing it for garments made out of manmade fibers and technical textiles. So there are certain chapters they have included and most of the chapters I think around 30 chapters are of garments made out of manmade fiber and around 10 chapters for technical textiles. That is what there is there till now. If there are some changes we do not know because the scheme has yet to be announced in textiles.

Anik Mitra: Okay in any timeframe you are anticipating for the announcement of PLI scheme?

Madhu Sudhan B: I think it should happen within this quarter because they are almost ready with it. I do know why they are delaying it.

Anik Mitra: That is great. Thank you so much. Thanks for answering my question. Thanks.

Moderator: Thank you. The next question is from the line of Dipesh from Manya Finance**.** Please go ahead.

Dipesh: Congratulations on having great results. And also I would like to show my appreciation to the management for purchasing shares from government because it builds about the investor confidence. Now the first question is to ask is about the interest cost. The interest cost in this quarter was quite low around 6 Crores going forward do we see this kind of interest costs or maybe lower or I mean annually do we look at 25 Crores of interest cost?

Madhu Sudhan B: No. This quarter it was lower because we have some ECBs in Europe, so the rupee has appreciated against Euro in this quarter. That is why it is lower, but I think year as a whole I do not see this number. We will see slightly lower than the whole year numbers but these numbers.

Dipesh: I just want to know that going forward production response do you see?

Madhu Sudhan B: We will have some reduction in the interest cost what we had in this year so whatever we have repaid the rupee loan that will be reflected in the interest cost, but it will not be to the tune of this quarter. So it will be like maybe around 8 Crores to 10 Crores rupees lower than what we have had in this full year.

Dipesh: My next question is about the capacity addition. The captive which is coming when is it getting commissioned which quarter?

Madhu Sudhan B: The captive power plant?

Dipesh: No not the captive power plant, the capacity addition?

Madhu Sudhan B: New capacity we are yet to start that and that will get commissioned in FY23 first quarter. We have not started spending anything on that we just started taking up and inquiries with the suppliers and everything is going on.

Dipesh: It seems that the major addition in capacity will be texturizing and POY semi-dull?

Madhu Sudhan B: It will be a combination of bright and semi POY and Texturizing and Texturizing also we will be putting normal Texturizing and also some air Texturizing.

Dipesh: Are these products higher margins?

Madhu Sudhan B: Yes, definitely air Texturizing has a higher margin than a normal texture. Air Texturizing is a yarn where you see you have some slubs in that and fencing also that also we will be putting now.

Dipesh: I want to know that how does our product pricing get affected from the crude oil prices is it directly proportional?

Madhu Sudhan B: Not directly but indirectly of course it gets effective because raw material prices have some effect of crude.

Dipesh: Okay and with cotton prices increasing will that have only an effect on people more?

Madhu Sudhan B: See cotton is a very different thing because cotton prices are more than double our pricing whether their price increase little bit or decrease does not affect the polyester market. They have a different market and different customer for cotton. Cotton customer will not use synthetic just because of the price.

Dipesh: Now just last question, you mentioned that depolymerization of recycle goods will get you a premium of Rs.60 to Rs.70 over the virgin rate Sir, am I right in understanding that?

Madhu Sudhan B: As of now people who are producing whatever niche recycled chemically recycled yarn they are getting a premium of 60 to 70. What I will get when I come into the market is difficult, but I feel that we should be able to get at least Rs.30, Rs.40 even though that will also be very decent margin because our cost of production will not be more than the virgin so whatever the margin virgin is getting over and above that even if we get Rs.30, Rs.40 which is a very huge margin.

Dipesh: And what are the virgin prices right now?

Madhu Sudhan B: Right now virgin prices are in the vicinity of around Rs.90, Rs.95 depending on product-to-product.

Dipesh: So that is approximately 30% to 35% even if you consider the Rs.30, Rs.40 we get that will be approximately 30% to 40% premium.

Madhu Sudhan B: Yes, we will definitely get a 30% premium or 40% premium.

Dipesh: When do we plan to start this Sir?

Madhu Sudhan B: Yes, it will take at least two years from now.

Dipesh: Two years from now, great, we will be there with you. Thank you so much.

Moderator: Thank you. The next question is from the line of Manish from Camelot Ventures. Please go ahead. Due to no response, we move on to the next participant. The next question is from the line of Neeraj from White Pine Investment. Please go ahead.

Neeraj: I wanted to know, what is the gross margin for the yarn in Q3 for the POY and DTY, FDY?

Madhu Sudhan B: In Q3.

Neeraj: Yes, Q3 and Q4 that is what we need?

Madhu Sudhan B: I can give you a very approximate; I think in Q3 we were getting in POY around maybe Rs.10 to Rs.12 and which other product you were saying, sorry.

Neeraj: POY, DTY and FDY.

Madhu Sudhan B: So POY could be Rs.10 to Rs.12, DTY would be around Rs.15 to Rs.17 and FDY was the major which was at Rs.35 and Q4 POY would be you can have another Rs.5 to all these three something like that.

Neeraj: So in that way the DTY is contributing a large contribution to your margin today?

Madhu Sudhan B: Basically DTY is a combination of POY and DTY both margins so because you make POY and then do DTY the same product.

Neeraj: Just one question, FDY is adding lot of margins to you so this will be…

Madhu Sudhan B: Yes, we are going to be very, very, very, good in both the quarters.

Neeraj: So do you see this continuing over some period or is there any reason it should change.

Madhu Sudhan B: I think what we have done in Q3 in FDY would be sustainable not maybe in Q4 and we could have done better than what we did in POY and DTY in Q3 so there we might have a slight increase in the margin, but in FDY we should be able to do what we did in Q3.

Neeraj: The capacity we were just planning to add off 100 tons per day in the Texturizing the POY, do you have some breakup of that capacity or is it just they are same?

Madhu Sudhan B: No, it is on drawing board side there is no breakup it will be approximately 100 ton it could be 110, 105 whatever.

Neeraj: Is it right to say that broadly till March 2022 most of the cases will be for the power plant and the capacity expansion and not on the polyester?

Madhu Sudhan B: Power plant the capex has already happened it will get commissioned only by end of this month or first week of May, early May so the capex for that has already happened now the capex will be for this 100 tons of POY and DTY which will be putting so that will happen in this year and first quarter next year.

Neeraj: So basically all that because see from cash flow perspective cash flow will be mostly on the capex?

Madhu Sudhan B: Cash flow we will have a like 175 Crores of outgo for the capex maybe we will take some loans because we will get benefits from central and state governments for putting Texturizing so to the tune of that maybe around 40 Crores, 50 Crores we take it as a loan and that would be out of our existing internal accruals, and if we import machines from Germany for POY then we might take a ECB and repay our rupee loans to that extent.

Neeraj: Thank you very much.

Moderator: Thank you. The next question is from the line of Manish from Camelot Ventures. Please go ahead.

Manish: Good evening Sir. Heartiest congratulations on lovely set of numbers. Just to understand like there have been lot of questions regarding the sustainability on the business first of all I would like to congratulate you, you have transformed the business by making more value added products and adding more lines to that. So that makes the business really sustainable. Just to understand a little bit like you told that Q4 numbers are onetime inventory profit so barring that the other numbers that you have the profitability and the margins in the Q4 what we can understand from your conversation is clearly sustainable for the next year also so addition to that in the next year if you will not have the inventory profit you will have the power gain so that will compensate that so overall we can look at the numbers of Q4 in the next year to be same as like Q4. Is that understanding correct?

Madhu Sudhan B: No, that will be too much I think we will have something better than Q3 plus you can add the profits what we will get from power. I would just keep it at that level because there is a huge difference between Q3 and Q4 numbers. So I would not like to comment on absolute number, but it will be better than Q3 and then you can add a power profit.

Manish: So basically what we want to understand Sir the numbers are sustainable it is not the one off gain?

Madhu Sudhan B: No, these are not one off once the COVID situation improves we can sustain margin which will be much better than Q3 for sure.

Manish: In the COVID situation also as you have told clearly mentioned that you are continuing with the production and once in the month of June when the situation improves you could sell the material so there will be actually no impact of COVID if the situation improved gradually by June?

Madhu Sudhan B: There would be some impact on COVID because right now the margins have gone down because there is less demand everybody wants to offload product. So I cannot say Q1 what will it be but definitely we will have a decent Q1 but not maybe I cannot see when this situation of COVID will improve, it is a difficult question to answer.

Manish: Yes, but clearly the margins are sustainable.

Madhu Sudhan B: Yes, margins are sustainable let us say if the COVID situation improves I think within a month we can be back to Q3 margins that is what I can say.

Manish: Thank you Sir. That is all for my side.

Moderator: Thank you. The next question is from the line of Ridhima Chandak from Roha Asset Managers. Please go ahead.

Ridhima Chandak: Just one question from my side that what are the spreads we are seeing in the last one year spread changes?

Madhu Sudhan B: See, spreads have changed significantly in this year because after COVID we had a very, very low spread we were barely able to cover our cost and not even made maximum interest cost and then after Q2 things have started improving from August end things started improving. So they have been improving till February end and then March it was a little down and because of COVID then half of

March things started going down so it is difficult to answer I can just give you a wage I mean how it has happened the numbers I did not, it is difficult to give any numbers for this period, but the margins have been improving from September till February.

Ridhima Chandak: So means like earlier on the last call it used to be you said that it was Rs.20 per kg and then Q3 it was approximately 25, increase to 25. So is there any significant change in the spread?

Madhu Sudhan B: Q4 has been significantly better than Q3 for sure, but what I am saying is margins slightly better than Q3 are sustainable the Q4 there is a lot of stock profit also.

Ridhima Chandak: Sir another is like in the Q3 selling price increased by almost Rs.15, Rs.16 per kg whereas raw material prices have increases by almost Rs.10, Rs.11 per kg so there is a gain on the margins by 4 to 5 so how much it is in the Q4?

Madhu Sudhan B: Q4 also we have had around Rs.4 gain over and above the increase in the raw material prices.

Ridhima Chandak: So there is not much increase in the, like selling price increase more than the raw material prices?

Madhu Sudhan B: Yes, it has increased more than the raw material.

Ridhima Chandak: So, if you can quantify how much it is like how much we have increased our prices at that level?

Madhu Sudhan B: I do not have those numbers right now. I will share with you once we calculate those numbers.

Ridhima Chandak: Thank you so much.

Moderator: Thank you. The next question is from the line of Jigar Walia from OHM Group. Please go ahead.

Jigar Walia: Congratulations and thanks for the opportunity. My question is with regards to Bhilosa what was the capacity earlier, what is the capacity which is coming next calendar year?

Madhu Sudhan B: See yarn they have fiber also, so they have around 450 tons per day of fiber and before the fire I think they had a capacity of roughly around 2300 tons of yarn filament yarn and their capacity of 700 tons was wiped out in this fire and now they are bringing back that capacity back on trail. So I think next year, mid next year they should have that 700, 750 tons back, I do not know exactly what they have ordered but it will be minimum 700 could be 50 tons or 100 tons more.

Jigar Walia: Your sense in terms of value add versus basic mix for Bhilosa and the new expansion that is on value-add.

Madhu Sudhan B: Bhilosa it is total value add. They do not do any POY or chips mostly right now they are doing chips because their capacity of yarn had wiped out and the chips capacity is still there, so they are doing checks otherwise Belarus is doing 100 value add.

Jigar Walia: Thank you so much, thank you, congratulations.

Moderator: Thank you. The next question is from the line of Jay Mehta from KSA Shares & Securities. Please go ahead.

Jay Mehta: Congratulations on excellent set of numbers Sir. Sir most of my questions are answered, I just have one question that is regarding the geographical sales split, if you can just give a number last year we had an export of 397 Crores if I am not wrong what would be this year number.

Madhu Sudhan B: This year we had export sale of 242 Crores year as a whole.

Jay Mehta: Thank you that is it from my side. All the best.

Moderator: Thank you very much. Ladies and gentlemen, due to time constraint that will be the last question for today. I will now have the conference over the Mr. Madhu Bhageria for closing comments.

Madhu Sudhan B: I would like to thank all the participants for sparing their time and joining us for our con call. Thank you very much. Have a good day, and a safe day. Thank you. Bye!

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