FIL/SE/2024-25/44
18th November, 2024

National Stock Exchange of India Limited
Listing Department
5th Floor, Exchange Plaza, C-1, Block-G,
Bandra-Kurla Complex, Bandra (E)
Mumbai-400 051
Security Symbol: **FILATEX**

BSE Limited
Listing Department
25th Floor, Pheroze Jeejeebhoy Towers
Dalal Street,
Mumbai - 400 001
Security Code: **526227**

Sub: Transcript of the Earnings Conference call held on 13th November, 2024 for the Q2 and H1 FY25 results of the Company

Dear Sirs/ Madam,

In continuation of our letter No. FIL/SE/2024-25/38 dated 8th November, 2024 and pursuant to Regulation 30(6) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed the transcript in respect of the Earnings Conference call held on 13th November, 2024 for the Q2 and H1 FY25 results of the Company.

This is for your information and records please.

Thanking you,

Yours faithfully,
For FILATEX INDIA LIMITED

RAMAN KUMAR JHA

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Date: 2024.11.18 15:16:59 +05'30'

RAMAN KUMAR JHA
COMPANY SECRETARY

Encl.: a/a

"Filatex India Limited

Q2 & HI FY '25 Earnings Conference Call"

November 13, 2024

MANAGEMENT: **MR. MADHU SUDHAN BHAGERIA – CHAIRMAN AND MANAGING DIRECTOR**
MR. MADHAV BHAGERIA – JOINT MANAGING DIRECTOR
MR. ASHOK CHAUHAN – CHIEF VISIONARY OFFICER
MR. NITIN AGARWAL – CHIEF FINANCIAL OFFICER

MODERATOR: **MR. ADITYA VORA – SHARE INDIA SECURITIES**

Moderator: Ladies and gentlemen, good day, and welcome to Filatex India Limited Q2 and H1 FY '25 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 call, please signal an operator by pressing star and zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Aditya Vora. Thank you, and over to you, sir.

Aditya Vora: Thank you. Good afternoon, everyone. On behalf of Share India Securities, I would like to welcome all the participants for the second quarter and 1H FY '25 Earnings Conference Call of Filatex India Limited. We are pleased to have with us the management team represented by Mr. Madhu Sudhan Bhageria, Chairman and MD; Mr. Madhav Bhageria, Joint MD; and Mr. Ashok Chauhan, Chief Visionary Officer. We will now have opening remarks from Mr. Madhu Sudhan Bhageria to give an overview on the company's performance. This will be followed by the question and answer. Thank you, and over to you, Madhuji.

Madhu Sudhan Bhageria: A warm welcome to all of you attending this conference call for the quarter and half-year ended September 2024. Joining me in this session are Mr. Madhav Bhageria Mr. Ashok Chauhan and Mr. Nitin Agarwal .I presume you would have gone through the investor presentation, which has been uploaded on our website, as well as on the stock exchanges.

Let me quickly take you through the standalone results of this quarter Q2FY25 over Q2FY24. Revenue of INR 1,049 crores against INR 1,108 crores. EBITDA stands at INR 45.7 crores against INR 54.2 crores. Net profit is at INR 13.5 crores against INR 23.1 crores.

And half-yearly year-on-year, H1FY25 versus H1FY24, the revenue was INR 2,103 crores against INR 2,177 crores, EBITDA was INR 106.6 crores against INR 99.1 crores. PBT. Net profit at INR 45.7 crores against INR 40.7 crores.

The performance “year on year “ basis is almost the same in H1 FY25 as was in H1 FY24. Just a few points better in comparison but it is still not normal as the margins continue to be under severe pressure.

On quarterly performance we could say that in Q2FY25 we had a stable performance amidst strong headwinds like steep fall in RM prices leading to rather erratic & subdued offtake in the months of July and August. Due to falling crude prices, the buyers’ sentiments have been "Wait and Watch". The gradual fall in crude prices has been across the whole quarter.

In a gradual falling input prices regime, the buyers defer their decision looking for the bottom and buying is limited to daily requirements. The demand for yarns in the domestic market has been reasonable but there were frequent lulls in buying.

Overall, in the segment of textile the domestic demand was subdued, the consumer sentiments weak due to higher inflationary pressures. The rural demand is showing some signs of recovery, and its effect is visible in textile segment. We observed encouraging uptick in both demand and margins across our operations since beginning of October.

The growth trajectory in last three years in India has been flat as several successive waves of turmoil have rippled across the globe which have affected Indian manufacturers. Crude prices and consequently petroleum derivatives are still not stable, and fluctuations are visible almost on daily basis. Geopolitical tensions have marred many aspects, be it the inflation rate or exchange rates or international prices of raw materials and commodities and shipping rates

However, the long-term outlook remains buoyant due to strong fundamentals. Polyester continues to be the most widely used fiber worldwide. With an annual production of around 71 million tons, polyester's market share was around 57.2% of the global fiber production. India's share in global supply is not growing at the same pace. Paucity of key raw materials and some policy issues have restricted growth. Continuous pressure on the margins has also been a deterrent. Some long pending policy corrections like "Inverted Duty Structure "on polyester inputs materials will give impetus to the domestic industry. Another request under consideration is shifting these materials under ministry of Chemicals and Fertilizers to Ministry of Textiles. The end products , yarns and fibers are under Ministry of Textiles and it would help them take a wholistic view of the global competitive scenarios.

For textiles yarns export, it is equally difficult to compete in the international market against lower Chinese prices worldwide.

Global Textile Industry has been identified as one of the major polluters. The footprints of pollution are everywhere ; be it rivers or groundwater, air, soil, biodiversity, marine life. Textile industry is under close scrutiny for identifying processes and practices that cause pollution, and remedial measures are moving from the suggestive stage to the enforcement stage. Norms are being defined to phase out all hazardous chemicals. International brands and their consumers are increasingly demanding traceability in offerings of sustainable products, and regulations are tightening to ensure ethical and environmentally practices throughout the supply chain. We strongly believe that this is the Time for Textile Transformation

To ensure sustainability and reduce environmental impact from the textiles and apparel industry, utilising a sustainable, "circular economy model" is of primary importance. It is one of our topmost priorities to be a contributor to this model. Sustainability is a survival mantra for our planet. To carry on business, imbibing this is not as a mere compliance of stipulated key parameters but also a way forward to grow business.

As mentioned earlier, we have been carrying out R & D for Textiles-to-Textiles recycling. We have developed and patented a process based on Molecular regeneration of polyester which can be recirculated infinitely. We are running a pilot plant to use miscellaneous types of textiles, garments, home linen waste. Simultaneously, we are in advanced stage of discussions with equipment suppliers for a 26,250 TPA capacity plant. We have procured the land and are in the process of seeking permissions to set our Recycling facility as a green field project. In our assessment, we should be completing the project by the end of first quarter of 2026. Meanwhile, the process parameters of the pilot plant are being tested for a larger scaled up version. It is a time-consuming process as there are no readymade equipment. Several field trials at vendor's plants are underway for efficient use of energy and waste heat recovery.

Our future path for growth is likely to be through recycling of polyester and we are in touch with leading brands. To certify recycling, there are several accredited international organisations. Their representatives are visiting our pilot plant to carry out Life Cycle Assessment. Textile Exchange, the global leading Organisation, has chosen our plant to review and assess how to standardise accreditation & certification content for recycling across all the continents. One of the key elements of recycling certification will be traceability of all inputs which means that our all sources of supply for all inputs would also have to be compliant to a uniformly stated procedure .

Several companies all over the world are experimenting to develop commercially viable technologies. We are of firm belief that though sustainability in textiles may sound difficult, it would the way forward and it may pave way for Indian companies to set up plants on foreign soil.

In the existing plants, we are consolidating operations and taking steps towards compliance to Sustainability standards. We have sourced around 30 % of our energy from wind and solar power sources, thereby reducing carbon footprint. Thank you

Moderator: Thank you very much. We will now begin the question-and-answer session. We'll take our first question from the line of Amit Vora from Ginar Consultant. Please go ahead.

Amit Vora: Just extending from the opening remarks that you mentioned in the presentation that you are witnessing a turnaround in the industry, if you can just give some color on that?

Madhu Sudhan Bhageria: Yes. Industry is turnaround because the demand has increased and we can see the margin improving. And whatever stocks people were carrying more in the last quarter, that have also reduced significantly. And going forward, if the demand continues like this, I don't think there will be enough material to give because previously, we had some stocks of the first quarter and beginning of the second quarter, which got sold in the end of the second quarter and also in October. But from November, I don't think there'll be so much of availability of material if the demand continues to be buoyant, which I feel should remain buoyant.

Amit Vora: Okay. Understood. Sir, 1 question is on Ester Industries, which is one of the companies which have announced a tie-up with Loop for a recycling plant. In comparison to that, how are we different? If you can just give some broad outlook on that, sir?

Madhu Sudhan Bhageria: So what they are doing is they have tied up with Loop Industries. Loop has been doing research for a long time. Their cost of production, whatever they have claimed in the presentation by Loop is also very high. And also, they are going back to the raw material, they would be making DMT and MEG. Then they further need to polymerize it to make granules or I think, polyester -- Ester is in film business. So they would use that to make film.

In our business, we would be not going to raw material stage, we will bring it very close to that, purify it and then make directly the polymer. So there's a difference in that. Also, the cost of production, what they have declared, the total capex they would be having is almost more than 60% more capital intense than us.

And I don't think Loop has tested this in a big way in their pilot plants or anywhere. There are no such records on that, that they have perfected this technology.

Amit Vora: Okay. Understood. Sir, just 1 more question on the recycling plants here. Once we are having the plant up and running, and it starts contributing to the revenues, at full utilization, is there a ballpark number that what we can achieve in terms of sales and return ratios on the plants sir?

Madhu Sudhan Bhageria: I think the top line would be close to INR270 crores to INR300 crores, and we should get an EBITDA of 35% to 40% on that.

Amit Vora: 35% to 40%.

Madhu Sudhan Bhageria: Yes. So you can say we should get an EBITDA of more than -- almost INR100 crores.

Amit Vora: Okay. Understood. Understood. Sir, I have a question on your cash flow, sir. So this first half, our cash flow from operation post taxes and working capital stood at INR45 crores. This number last full year was INR168 crores. And taking this back a further, in FY '23, we were doing almost INR325 crores of cash flow from operations. So what is the reason for this deteriorating cash flow? Sir, if you can just explain then I'll have a question on that, sir.

Madhu Sudhan Bhageria: The deterioration is because of the margins. The margins have deteriorated so the profitability has gone down. Cash flows have also gone down. Also, we had in FY '22, paid a lot of -- repaid the loans. This year also, we have paid almost INR52 crores prepayment of the loans.

Amit Vora: Okay. Okay. So sir, if we were to assume from what has been presented and what your commentary has been that the turnaround is visible. So can we see that in FY '26, we would be doing INR300 crores plus cash flow from operations with this working capital improvement and margin improvement that we are foreseeing. Is that a fair assumption?

Madhu Sudhan Bhageria: Yes, yes. We will do much better than INR300 crores in FY '26.

Amit Vora: Great, sir. Sir, 1 question to extend on that is currently our net debt is around INR160 crores, about INR300 crores is our planned CapEx, which will happen. With this kind of cash flows that are going to happen, we would be approximately a debt-free company by FY '26. Is that the right way where I'm pointing towards?

Madhu Sudhan Bhageria: Yes, we should be very close to that because we are also planning one more small CapEx to increase our capacity of yarn like we had added cationic plant of making polyester chips. To utilize that we are planning to put almost 75 tons of new yarn capacity, which will be 50% FDY, 50% POY. So that will need a capex of INR120 crores, which is yet to be given to the Board. But yes, maybe -- I'm just watching the market. If I see the market very good in this, what I'm hoping it should be, then we'll go ahead with that project. So still after that also, we should be very close to debt free in end of FY '26.

Amit Vora: That would be a significant improvement in terms of cash flow, sir.

Madhu Sudhan Bhageria: With an investment of INR120 crores in that.

Amit Vora: Okay, sir. One last question, if I may squeeze through, and then I'll get back in the queue. Our ROCEs were about 14% in FY '24. With this entire working and the turnaround that we are seeing in the industry. my calculations suggest that we should be upwards of 22% ROCE by FY '26. Is that a fair working?

Madhu Sudhan Bhageria: Yes, I have not calculated ROCE. I can tell you the EBITDAs will be more than double digit in FY '26, for sure. That's what I can give you the guideline.

Moderator: Next question is from the line of Aditya Vora from Share India. Please go ahead.

Aditya Vora: Madhuji, I had a couple of questions. One is with regards to our margin. I think in FY '21 and '22, we were doing 14%, 15% margin. I understand those were the best years. And currently, we are like a 5%-odd EBITDA margin. Strategically and going forward, what needs to change over the next 6 to 9 months so that we can get back to a margin of, say, 8% to 10%. So can you just highlight that?

Madhu Sudhan Bhageria: A lot of things have already changed. First of all, demand is growing. No new capacity has come in so much. Second is that there were a lot of imports of fabric in India at very low ridiculous prices from China. The government has put a minimum import price on the fabric. So that has also stopped.

These are the main reasons. The demand has increased. And because of the demand increase, the margins have to come to a level where people can put more capacity, and that is almost 14%, 15%. If we don't make 14%, 15%, I don't think new capacities will come in India. Government wants to grow textile and textile growth can only happen through polyester that has been seen in the last 10, 15 years.

The major share of the growth in textile has always been polyester. India did not focus on that. That's why India has not grown in textile so much. China has been growing. Now the focus has come back. So I see the margins improving. And at least, we should be more than -- I mean, in some middle double-digit numbers, then only new plants can come in because the new plant costs around INR1,600 crores, INR1,700 crores for a 2 lakh ton plant. So if the margins are not that way, nobody is going to put the plant.

Aditya Vora: And so you highlighted on demand. You were saying that demand was fairly robust in the past 1 or 2 months. Maybe July, August was a bit slow. But how do you see demand going forward? Because from what I understand, demand has not been much of a problem. It is only the pricing and the cheap imports from China, which has led to low realizations for this.

Madhu Sudhan Bhageria: In a commodity, a small disruption can lead to losing the margins, no. We were getting almost like 900 tons of material every day in the form of fabrics from China. That has now stopped. That will make a huge difference. 900 ton is almost, I would say, we make around 15,000 tons. So 900, you can say is around more than 6% that has stopped. That will increase the demand for the local fabric and in turn for the yarn.

Moderator: We'll take our next question from the line of Sandeep Raj from Oculus Capital Growth Fund. Please go ahead.

Sandeep Raj: My question is regarding the new recyclable plant. I just wanted to know what is the timeline, what is happening there? When will it be commissioned? Do we still stand that it will commission by the end of calendar year 2025?

Madhu Sudhan Bhageria: Yes, I don't think so. Maybe we will go to first quarter '26. But there is a probability we might complete in end of '25 but definitely by first quarter '26.

Sandeep Raj: And what's the project there...

Madhu Sudhan Bhageria: It's a greenfield project and also it's a new technology. To identify the machine to track them and then buy them is a very tedious and long process. But still, I feel we should be commissioned in the first quarter in '26.

Sandeep Raj: Okay. So Quarter 1 FY '26 will be the latest by then...

Madhu Sudhan Bhageria: Yes. That's what I think.

Sandeep Raj: Okay. And where are we on it right now? Like are we on the approval stage, the land acquisition...

Madhu Sudhan Bhageria: The land, we have got it. NA we have applied, that should We get it in end of November. And then we have to submit plans for the building. So that we are already trying to finalize. Machinery suppliers were in advanced talks to finalize those machines. So we are testing those machines in a smaller way, whether they'll work for us or not. So all that is going on.

Moderator: We'll take our next question from the line of Rahul Rama from Vista.

Rahul Rama: Okay. So I'll just try again. Sir, my question is pertaining to this recycled polyester. So I think -- I am not sure, but it was maybe 2 or 3 years ago when you first mentioned it. And I've been just tracking your progress on it sir. So what I wanted to know is that when you first -- I asked you what are the margins we expected. You said 35%. And even on this call, you maintained that it would be around 30%, 35%.

So I'm just trying to understand because -- I'm trying to understand for you the industry dynamics a bit better, I guess. Because usually, when you see these kind of margins, it attracts competition and people want to come in, but even after 3 years, you are still maintaining that 30%, 35% margins. So sir, what is like the holder what is like preventing other players to come up with capacity, sir?

Madhu Sudhan Bhageria: Last 3 years also no new capacity in this has come up. Everybody is in this research stage of putting up a plant. So the margin would remain that level only till the time there is too much of capacity in this coming up. The demand is much higher than what the people are producing. I think the demand would be today, maybe 8x to 10x what the production is happening.

The production is very, very low and also to what people are producing is mostly out of PET bottles. Nobody is producing after textile waste. And now in Europe, there is an extended producer responsibility, which has been -- which will come in force from 1st of January 2025.

India also is putting a lot of producer responsibility for bottle to bottle. So availability of the bottle will also go down. And whatever technology we are using, our cost of production is that, that we will be producing the polyester at a much cheaper price than the virgin polyester. So that will also give us some margin and plus the premium, what you get on the virgin, that will grow.

So the margins would remain. If you go and see the presentation of Loop and all, they are claiming 40%, 45%. I'm not claiming that. And their investment is almost double than what we are doing. Still they are claiming such a high profitability.

Rahul Rama: So sir, I have done my fair bit of research on these Loop and other players as and I'm aware of what you say. And I also remember you saying that all of these players, they are not from the textile industry, are mostly start-ups with science background. And you would have a distinct advantage versus them because you're one of the few players who's actually a textile producer, I mean, what do you call, polyester producer, who is venturing into recycled polyester.

So over the last 3 years, sir, what have you been learning? Is it like actually materializing to you having a cost advantage as you just mentioned? And if so, like what can you tell us about it? Like how has that translated into you carving a cost?

Madhu Sudhan Bhageria: We have been able to, first of all, check each in every process in-house what we'll be doing. And also, first, we also started from PET and yarn waste. Now we have been able to use even the fabric waste pre-consumer because we need to know what is inside that fabric. So we are using pre-consumer waste of the fabric, which is like the small cut runs which you get from the people who are making fabric or the process houses or the government producers.

So that we have been successfully been able to use and convert it back. Now we are just trying to fine-tune the process and also trying to get the machines, which will be suitable for such a large production comparatively so that the ease of operation is also there.

Moderator: I'm sorry, Rahul, we lost you again.

Rahul Rama: Yes. Sir, also, I do understand that because this is also like a novel project for you guys, it has -- the commissioning of the plant has taken a lot longer than you initially had envisaged, and that's understandable. But sir, like all that is fine. On your side, you have done everything right, let's say, right? And you have perfected the recipe for producing this virgin polyester.

What does it take from the client side? Because I'm guessing there must be some hesitance even from the client side to make sure that the quality is up to mark and there will be some trial runs. So even if you, say, you get the plant commissioned, so how do you see the offtake happening here? Will it be like a slow process or clients just actually hungry for this virgin polyester?

Madhu Sudhan Bhageria: See, we are already in talks with the clients. And in case they want some trials, we can do it from our pilot plant. So hopefully, by the end, when the plant -- when the big plant is running, we should have the clients in place, maybe not 100%, maybe 50%. And then within the next 3 to 6 months when the client can see the operation, they might do it faster.

So yes, first 3 to 6 months, the productivity could be lower. But definitely, it should come to almost full capacity within 6 months because we'll be doing the client feeding from -- now only we are in talks with them, what are their requirements? What are the environmental requirement they would need in the new plant, we should take care. So all that we are taking care.

Rahul Rama: Perfect, sir. Sir, just 1 last request from my side, the only request actually. Like whenever you do commission this plant and let's say you get your first maiden customer, it would be really helpful for us investors, if you could notify the exchanges once you bag your first customer, sir.

Madhu Sudhan Bhageria: Sure. I would do that once I have some positive approval from one customer, and notify the name also if they allow.

Moderator: We'll take our next question from the line of Amit Vora from Ginar Consultant. Please go ahead.

Amit Vora: Sir, one question is on the EBITDA that you mentioned that you would be at double digit. How far have we come on that, sir? And what is the near-term understanding on the EBITDA margin that we can look at?

Madhu Sudhan Bhageria: I think we should be very close to 8% in this quarter, and we should do approximately double digit in the next quarter. And then going forward, it should improve.

Amit Vora: Okay. So every quarter from here on, we should see some improvement on a quarterly basis and then probably double digit is where we should stabilize?

Madhu Sudhan Bhageria: Right

Amit Vora: And one more thing, sir. Our interest costs has gone up quarter-on-quarter to around INR8 crores from INR5 crores, I think. So what is the reason for this, sir?

Madhu Sudhan Bhageria: This quarter, we had a mark-to-market loss on long-term borrowings. We have long-term borrowings in Euros, which we don't hedge as a policy. Overall, we have gained quite a bit because of that. So this quarter, I think on 30th September, the rate was almost close to 93-point something, which has come down below 90 now. So this quarter, it will get negative. That's not a cash loss. It's just a notional loss which we had.

Moderator: Next question is from the line of Harsh Patel from Share India Securities.

Harsh Patel: Can you let me know what's the festive demand for this year? And can you throw some light on capex for coming quarters?

Madhu Sudhan Bhageria: Coming quarters, there is no capex planned. The main capex, which we are doing is on the recycling. So that will be very low in the first 1 or 2 quarters. It will pick up, I think, by end of second half of next financial year.

Harsh Patel: Okay. So what would be the amount of capex total we are planning?

Madhu Sudhan Bhageria: We are doing on recycling is INR300 crore, and one project, which we are planning to do would be INR120 crores to enhance the yarn capacity in the existing plant.

Harsh Patel: Okay. And can you throw some light on festive demand?

Madhu Sudhan Bhageria: The festive demand is good. That's why what I said, the demand has been good in October. So that's a festive season. The demand has been pretty good. And I think it should continue what we see from the offtake of the fabric happening with the people. Every fabric guy had a lot of stocks, all stocks have been almost wiped out in the October month.

Moderator: As there are no further questions, I would now like to hand the conference over to the management team for closing comments. Over to you, sir.

Madhu Sudhan Bhageria: Yes. I thank all the participants for sparing their time in joining us and hope to see them in the earnings call of the next quarter and end of third quarter. Thank you so much.

Moderator: Thank you, sir. On behalf of Filatex India Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.