FILATEX INDIA LIMITED

CIN No.L17119DN1990PLC000091

FIL/SE/2024-25/12
8th May, 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
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Dalal Street,
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Security Code: **526227**

Sub: <u>Transcript of the Earnings Conference call held on 2nd May, 2024 for the 4QFY24 results of the Company</u>

Dear Sirs/ Madam,

In continuation of our letter No. FIL/SE/2024-25/05 dated 25th April, 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 2nd May, 2024 for the 4QFY24 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
Q4 and FY '24 Earnings Conference Call"
May 02, 2024

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

MODERATOR:
MS. KHUSHBU GANDHI - SHARE INDIA SECURITIES

Moderator: Ladies and gentlemen, good day, and welcome to Filatex India Limited's Q4 FY '24 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 call, please signal an operator by pressing star and then zero on your touch tone phone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Khushbu Gandhi from Share India Securities. Thank you, and over to you, ma'am.

Khushbu Gandhi: Thank you. Good evening, everyone. On behalf of Share India Securities, I would like to welcome all the participants to the Q4 and FY '24 Earnings Conference Call of Filatex India Limited. We have with us from the management team, Mr. Madhu Sudhan Bhageria, Chairman and MD; Mr. Madhav Bhageria, CFO; and Joint MD and other senior management team. We would commence the call with the opening remarks from Mr. Madhu Sudhan Bhageria to give an overview on the company's performance. This will be followed by the question and answers. Sir, you can take over the call.

Madhu Sudhan Bhageria: Thank you, Khushbu. Good afternoon. A warm welcome to all of you attending this conference call for the quarter Q4 ended March 2024. Joining me in this session are Mr. Madhav Bhageria, Mr. Ashok Chauhan and Stuti Bhageria. 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 results of this quarter Q4 FY '24 over Q3 FY 2024. Revenue of INR1,026 crores against INR1,083 crores. EBITDA stands at INR64.8 crores against INR74.3 crores. Profit before tax stands at INR47.2 crores against INR47.7 crores. Net profit is at INR34.8 crores against INR35.1 crores. Production was 97,000 against 103,000 and sales quantity was 96,500 against 101,000.

And year-on-year, FY '24 versus FY '23, the revenue was INR4,286 crores against INR4,304 crores, EBITDA was INR239 crores against INR232 crores. PBT, INR150.4 crores against INR122.1 crores. Net profit at INR110.7 crores against INR89.9 crores. Production is 406,000 metric tons against 3,80,000 metric tons and sales 4,01,000 against 3,82,000.

Before elaborating on the business environment, let me give you a brief observation about the global situation over the last 5 years, which will help in understanding their impact on economy and business. The occurrence of 2 significant global events, namely the COVID-19 and the Russia, Ukraine conflict happening one after the other, has had a profound impact on the textile fibers market. These unprecedented events have introduced a complex set of factors that have reshaped the market trajectory in unforeseen ways.

The onset of the pandemic brought about substantial changes in consumer behavior and business operations, lockdowns, travel restrictions and the prevalence of remote what became the new normal, prompting business to pivot towards digital platforms, this abrupt transition heightened the importance of online presence and visibility, leading to an increased demand for effective utilization.

Companies want to expand their online reach, resulting in a noticeable upswing in the textile fibers market as businesses sought to optimize their online content for greater visibility and engagement. Simultaneously, the Russia, Ukraine conflict introduced an additional spectre of uncertainty and volatility into the global economic landscapes. Geopolitical tensions and economic tensions had ripple effects across various industries, affecting consumer sentiment and purchasing behaviors.

As businesses navigated these geopolitical challenges, the textile fibers market adapted to their evolving environment with brands, reevaluating their marketing strategies to align with shifting consumer sentiment. Textile industry in each country evolved its own policies and recipes to mitigate the uncertainties to save lives and jobs.

Overall, inflationary development across the globe and volatile geopolitical upheavals impacted the performance of textile businesses. Indian businesses have faced a rough weather in both domestic and international markets for more than 2 years. This year too, the performance of Indian polyester industry has been extremely challenging. It was a battle against Chinese imports in all forms, yarn, fabric and made-ups.

The domestic market was provided with cheaper imports of substandard polyester yarn and fibers. Industry captains bought together in what for policy changes with facts and figures. The tidal flow of yarn stemmed only after QCO on yarn was enforced. After the yarn issue, there was a sudden spot in fabric imports has ridiculously low prices. These 2 are brought to the notice of government officials who acknowledge the arms footlet imports of fabrics and unheard-of prices and put a cap of $3.50 per kg as the minimum value.

Textile industry needs a level playing field at the global level. At present, Indian polyester industry is still at a significant disadvantage in competing against China. Indian manufacturers pay around $70 per metric ton more for PTA, which is short supply domestically. This being the key element, of course, it is difficult to compete with Chinese prices in domestic market and same goes for exports. Thus, dumping on low price imports from China in all forms, yarns, fabrics has been the biggest challenge this year.

Though the domestic demand for synthetic fiber had been got a large volume of low-cost substandard import force Indian manufacturers to manage their price in line with import from China, a reduction of INR4 to INR5 per kg has eroded the margin despite high volume of sales. Adding to the role is the huge drop in exports from India, which also keep dampened margins low.

Overall, at the global level, the textile fibers are growing at the rate 3% CAGR. Most of the growth at the global level for the last 15 years is through for polyester yarns. Polyester industry at global level is dominated by China last year. China produced around 40 million tons of filaments at 90% capacity utilization.

China had added a fresh net capacity of around 3.8 million tons in 2023. Our further expansion has slowed down, no new investments have been announced in China for INR2024 and 2025 to meet its annual increase in global demand of 3 million tons. It is a good opportunity for Indian manufacturers to add new capacity.

Indian capacity utilization is already close to 90% and new capacity can be added. Lack of margin has been biggest deterrent for capacity expansion. Polyester units, are capital intensive. A typical melt spinning complex of 600 tons per day or 2 lakh tons annually would cost a minimum of INR1,500 crores.

A simple calculation for a 5-year payback would mean that at the yarn stage, the margins have to be at least INR15 per kg. Government of India has recognized the dominant role of synthetic fiber in the global textile trade. The world producers and consumers have shown wide acceptance of synthetic fibers, garments and apparels. Government of India has announced a PLI scheme for development of -- and boosting of fabric and garment of Manmade Fibers.

Factors of mega textile parks are under planning and execution. These large parts will have the benefit of world-class amenities which will benefit small and medium-sized companies and ready-made garments and apparels. Indian government and industries must evaluate and recalibrate their import strategies fostering more diversified and resilient supply chain. Growth in imports from China has been much faster than India's overall growth -- overall import growth as per well report by Global Trade Research Initiative GTRI. Many products imported from China, such as textiles, shoes and glassware, etc. are from categories dominated by MSME and most of these items could be produced local easily.

Around 2.2 million tons of PTA capacity will be commissioned at the end of calendar year 2025. These plants have been -- are being set up by IOCL and another one is by GAIL. This will reduce the dependence on imports, which have uncertainties like shipping schedules, exchange rate fluctuation. Also, Reliance Industries is putting up a 3 million ton capacity plant for PTA, which is likely to be commissioned by 2026 calendar year.

And all these factors are encouraging and will restore confidence in future of pet fibers and filament and boost domestic production. We are adding 70 tons per day capacity to produce cationic chips, which are -- which is likely to get commissioned by May 2024 in this month. We will have an incremental margin of at least INR10 per kg over the regular chips. Even at 50 tons per day capacity utilization, we expect to add around INR15 crores to our margin this year. Domestic demand is robust and is growing at 8% CAGR. Domestic production capacity is around 5 million tons. The new capacity addition in next 2 years will be 450,000 tons only.

No other major investment is planned. With robust domestic demand, the margin that a drop due to imports will gradually improve to our enumerative level adequate to consider fresh capacity addition. We remain warrant about the future of polyester filament business, polyester is the most widely used fiber worldwide. The growth in world fiber production in the last 15 years has come from synthetic fibers only, contributing 93% of the incremental growth.

Besides being very versatile, polyester fiber has a less adverse impact on environment. A comprehensive study by Swedish research company, MISTRA has found that it is far less resource intent to produce polyester than conventional cotton from a life cycle perspective and the durability of polyester further improved in its environmental profile. The fresher industry is labelled as the second most polluting in the world after oil industry, the environmental footprint of a manufactured garment comprise a trail of multiple toxics processes from cotton planting, passing through processing and dying and transportation to the points of sale and finally, disposal after use.

Fast fashion premise on low cost and low durability has widened this footprint by accelerating waste pool fraction consumption. The danger of polyester clothing’s pulling to landfill is an issue being discussed globally as polyester is not biodegradable. Considering the focus on sustainability of textile industry and the need to shift from linear to circular economy, we have developed to in-house R&D process to utilize textile waste in any form. After extensive lab test, we set up a pilot plant, which is now operating steadily.

We are in the process of setting up a scaled commission with capacity around 75 tons per day. This process is called chemical recycling or molecular regeneration. We have material produced is of similar quality as virgin material. Global brands to meet their obligation and our EPR extended producer responsibility are willing to pay premiums ranging from INR40 to INR45 per kg for recycled products.

We plan to commission our plan by December 2025. Going forward, we plan to set up such plants all over the country at places near textile hubs. This is like to be our growth model, which will be in real terms in part of the much desired circular economy and an appropriate testimony to sustainability. Thank you.

Moderator: The first question is from the line of Umesh Jain from Kotak.

Umesh Jain: Congratulations on a good set of numbers in a challenging environment. My question is on fabric and yarn import while there has been an antidumping duty which has been levied. Just wanted to understand how is the domestic business environment. You did highlight it there has been some weakness in export given raw material costs in India for PTA, especially slightly higher than China and which is expected to come down as the domestic PTA capacity does come in. But specifically on the domestic side, are we seeing some improvement in the margin? And sequentially, can we expect improvement in the margin as we progress towards FY '25?

Madhu Sudhan Bhageria: Yes. See, regarding antidumping duty, there's no antidumping duty. Fabrics, yarns, the government had put a QCO. So China cannot export to India because China has not been given the QCOs and for fabric, what the government has done, the prices which was coming at very ridiculously low prices. Now the government has said that if you import, you have to pay duty at $3.5 minimum. So the actual value of the fabric is around that only. But -- they were dumping at very ridiculously low prices.

So now the government has put a cap that you have to pay duty at $3.5 minimum or at what price we have imported, whichever is higher. So that is what they have done. And this is still September after September -- before September, I think the budget will come. So they will correct it in the budget. This is a stop gap arrangement they have done. And as far as export is concerned, it's very difficult to compete in the export market with China because they have advantage of almost $70 in PTA, which amounts to around $60 per ton in the yarn.

So wherever the freight portion is lower from India as compared to China, we are able to do it. But where the freights are similar, it's very difficult to export. So once the new plant of PTA will come in, then the difference of $70 will go away, then we will be able to compete with them. As far as local is concerned, domestic sales, yes, the margins have started improving slightly.

And going forward, after first quarter, I think it will improve more because in the first quarter, there is a lot of labour shortage. And the production side -- fabric side, the productivity is also low. So the demand is low for the year. Even though in spite of all this, there is a very slight improvement in the margin. So first quarter, I can't say if we'll do something better than last year. But yes, going forward, as a year as a whole, we would significantly have better margins in the year. Umesh, anything else.

Umesh Jain: Yes. When I look at interest costs in quarter 4, there has been a significant dip in interest cost. The interest cost has reduced to INR3.2 crores versus INR11 crores last quarter. Any reason for this decline?

Madhu Sudhan Bhageria: Yes. We have some ECBs and which are unhedged. So sometimes because of the currency loss last quarter was more. And this year, there was rather some currency gains, so the quite lower. The ECBs are in euro because of that, it happens.

Umesh Jain: Sure. And lastly, on the capacity expansion, we have announced 70 ton capacity per day. What will be the CapEx for this capacity?

Madhu Sudhan Bhageria: Yes, CapEx has been around INR40 crores, INR42 crores. .

Umesh Jain: INR42 crores. And this is expected to commercialize by when?

Madhu Sudhan Bhageria: Yes, in this month it will get started.

Moderator: The next question is from the line of Basant Pande, who is an, Individual Investor.

Basant Pande: Sir, this is regarding our recycling plant expansion. If I remember correctly, your 30th October filing exchange filing, take the cost at INR150 crores for a 20,000 metric ton per annum plant. And now it is, I think, 26,000 metric tons per annum plant and the cost is expected to double that is INR300 crores. So any particular reason for this escalation in cost?

Madhu Sudhan Bhageria: First, when we had envisaged this project, we were thinking that we'll be using pet bottles and yarn waste. But now during the period, we have been able to develop a technology to use even the fabric waste like very small cutting of the fabric, so that we can convert to now the CHIPS. So that is evolving some more machinery, which is quite costly. That is why it is there. And the cost of the raw material at that stage previously used to be like INR40, INR45 a kg, and would now go down to INR15 a kg.

Basant Pande: That will offset the...

Madhu Sudhan Bhageria: Also, we'll be able to use the color fabric now. Previously, we were not had the technology to use color fabric. Now we have developed and being successfully able to convert color fabrics also back to the polyester. So that is why the cost has gone up because some machines which we have used to do this are quite costly.

Basant Pande: Okay. thank you for the clarification, one other things, sir, we are going to invest INR50 crores into textiles, right? So that would be in the form of equity, I suppose?

Madhu Sudhan Bhageria: Yes, INR50 crores at the moment, we have taken from the Board approval for equity and up to INR100 crores as a loan. And balance, we will see either we'll take bank loans or if need be we are sufficient, maybe – more will be invested by the many as we go forward. See, it's a very new project. It's one of its own kind. So is very difficult to predict exact cost with INR300 crores is a very ballpark number, plus/minus can happen a little. It's not a technology which is already established.

Basant Pande: Right, sir. Another thing, the polyester chip, the recycled chips, which we will be manufacturing, do we plan to convert them into yarn at the Dadra plant? Or will you…

Madhu Sudhan Bhageria: No. First, we will sell chips also and'we'll convert it to yarn at Dahej or the Dadra plant as per the requirement and then we would also have the possibility to set yarn unit at the same location for converting it directly to yarn at the same location. So initially, we don't want to put money in putting up yarn facility because that we already have at a different location. .

Basant Pande: Right, sir. And any plans of tying up with any big global manufacturer for captive sale of yarn...

Madhu Sudhan Bhageria: With few brands for tying up. So we already are in talks with them. .

Moderator: Next question is from the line of Pratik Bhandari from Aart Ventures.

Pratik Bhandari: Let me know as to the acquisition cost of this Texfil acquisition.

Madhu Sudhan Bhageria: Yes, INR20,000.

Pratik Bhandari: Sorry?

Madhu Sudhan Bhageria: INR20,000.

Pratik Bhandari: INR20,000. Okay. And how do you see the top line in the next financial year, FY '25?

Madhu Sudhan Bhageria: I think top line, we should be doing maybe around 5% to 7% more than what we have done because we are not adding new capacity much. This new capacity, which we are adding is only at the CHIPS stage. So this will improve our margins, the cationic CHIPS will not add much to the top line.

Pratik Bhandari: So the margins would be in the same range as they were into...

Madhu Sudhan Bhageria: No, margin would be, as I said, this year, we expect to have a INR15 crores extra margin because of this new capacity. .

Pratik Bhandari: INR15 crores during the year?

Madhu Sudhan Bhageria: Yes, during this year.

Pratik Bhandari: Okay. And that is out of the CapEx made for?

Madhu Sudhan Bhageria: Capex is around INR40 to 42 crores.

Pratik Bhandari: So what would be the capacity expansion -- annual capacity expansion?

Madhu Sudhan Bhageria: Annual would be around 25,000 tons.

Pratik Bhandari: 25,000 tons. So out of 25,000 tons of capacity expansion, we are expecting INR15 crores added up in our margins.

Madhu Sudhan Bhageria: Correct.

Moderator: The next question is from the line of Gaurav Agrawal from Nine One Capital.

Gaurav Agrawal: Sir, in terms of our EBITDA per metric ton, we suppose whatever we are expecting in the upcoming asset that happens. So what kind of EBITDA margin or EBITDA per metric ton, do you expect to do on a full year basis between FY '25 and in FY '26 maybe.

Madhu Sudhan Bhageria: Yes, FY '25, we expect our EBITDA to improve by at least 40% to 50%. .

Gaurav Agrawal: 40% to 50%?

Madhu Sudhan Bhageria: Yes.

Gaurav Agrawal: Okay. And the next year?

Madhu Sudhan Bhageria: Next year another 40% over and above the FY '25.

Gaurav Agrawal: Okay. So basically, sir, if not growing that as just supply to the previous participant question. which means our EBITDA margin should be so move from 6 to 9% and then so 9% to say, 13.5% to 14%. Is the understanding correct?

Madhu Sudhan Bhageria: Yes, approximately.

Gaurav Agrawal: Okay. And sir, what would go wrong in the industry or for yourself that you might miss this guidance?

Madhu Sudhan Bhageria: Sorry, I couldn't get you properly.

Gaurav Agrawal: No. I think we are guiding for a very healthy increase in margins. So obviously, we must be taking certain assumptions. So I just wanted to understand what are the assumptions that you are currently taking to guide this kind of expansion? .

Madhu Sudhan Bhageria: Correct. So the main scene in the world, the total production of filament yarn is roughly 50 million tons. And every year, China was adding around 3 million tons, which for next 2 years, China is not adding anything. So that will create a global demand in China already in this year is over 92% capacity utilization. Margins have to be improved to a level where new investment can come in, until and unless there is a 13%, 14% return on -- percentage return on the turnover, it justify putting up new capacities.

As I said, it takes around INR1,500 crores to INR1,600 crores to put up a capacity of 2 lakh tons. So if you don't get even INR300 crores or INR325 crores in EBITDA, nobody would put up a new capacity. So it has to come to those levels. And in India also, there is no big -- there are only 2 plants which are coming up, which would add to around 9% of the capacity in next 2 years, whereas the demand is growing around 8% to 9% every year.

So all these assumptions -- because of these assumptions, I am saying that the margin will improve to those levels. And the -- even after this, they will come to a level, we have 1 can think of putting a new capacity. Before that, it's quite difficult for anybody to put up a new capacity.

Gaurav Agrawal: Understood. So sir, I just said to put a 2 lakh metric ton kind of capacity, it would entail somebody to spend INR1,500 crores to INR1,600 crores. What's the CapEx spend -- like is it 1x or is it like 1.5x, what's the CapEx spend here, sir?

Madhu Sudhan Bhageria: Turnover would be around 1.5x.

Gaurav Agrawal: 1.5x. Okay. So we expect INR325 crores EBITDA to 14, 14.5 is what you are also guiding. Okay, got it.

Madhu Sudhan Bhageria: Like I said, INR2,200 crores, INR2,300 crores turnover, you need EBITDA of 300 to 320 crs and 320 to justify INR1,500 crores investment, no. So based on that I'm giving you these numbers. Persons who are already in this business would think of putting it. A new person can even -- we will not do it even at these numbers.

Gaurav Agrawal: Right. Right. And sir, how much time does it take to add a brownfield line here or for a greenfield or how does the time...

Madhu Sudhan Bhageria: Minimum 2, 2.5 years.

Gaurav Agrawal: Okay. That is for the brownfield is it? .

Madhu Sudhan Bhageria: No, for a greenfield.

Gaurav Agrawal: Okay. And for brownfield sir, if you were to add a line...

Madhu Sudhan Bhageria: Its like 18 to 24 months.

Gaurav Agrawal: 18 to 24 months and that's become the machine that you import from outside these vendors take a lot of time? Or is it -- is the environmental process that takes a lot of time, which is that part which takes a lot of time here to new CapEx?

Madhu Sudhan Bhageria: Everything, taking environmental clearances, land problem, then ordering the machine, machine deliveries are 12 to 15 months and making building, everything would take 18, 24 months.

Gaurav Agrawal: Okay. Okay. And sir, if I may squeeze the last question. We are doing this recycling CapEx of 26,000 metric tons and you said that it will be operational let's say by December 2025, on a full year basis, let's say, anyway, it will be only there for 1 quarter. So more specifically for FY '25, what kind of revenue can one expect from there? And what kind of margins will we be envisaging over there? .

Madhu Sudhan Bhageria: See, the margins there, we are envisaging around 40% EBITDA. And the turnover in a full year would be around INR275 crores, INR280 crores. First year, maybe the capacity utilization because it's a new thing, it could be around 60% to 70%. But if we take a full year it will be INR275 crores with a margin of 40% EBITDA, so INR105 crores to INR110 crores EBITDA.

Gaurav Agrawal: On a total investment of INR300 crores?

Madhu Sudhan Bhageria: Correct.

Gaurav Agrawal: Okay. Okay. That sounds a very high ROE, I think very, very high ROE opportunity.

Madhu Sudhan Bhageria: Yes. So I can give you a name like Loop industry, they have given an investor presentation and they are investing $400 million for a 70,000 tons plant, and they have given a guidance of 45% EBITDA even at $400 million for a 3x plant, what we are thinking of. They are putting 10x the investment 3x a plant and EBITDA of 45%. Global Loop industry I think the name.

Gaurav Agrawal: Okay. And okay. And sir, this recycled product, will we sell it to the existing customers? Or will do to find a new set of customers for this?

Madhu Sudhan Bhageria: We will make polyester chips. So either we will make the yarn ourselves or people who are making the yarn from chips.

Gaurav Agrawal: All the best for the next 2 years. I hope we definitely get to see the margin because we...

Moderator: The next question is from the line of Ketan Athavale from Robo Capital.

Ketan Athavale: Sir, firstly, can you please reiterate your FY '25 and '26 guidance?

Madhu Sudhan Bhageria: FY '25 full year, I think we should do 40% to 50% over this current year EBITDA and then another 40%. So maybe around 9% EBITDA in FY '25 and around 12.5 to 13%, 13% EBITDA in FY '26.

Ketan Athavale: Okay. And on revenue terms?

Madhu Sudhan Bhageria: Yes, on the revenue terms, I'm saying. Revenue, I don't think will be much improvement, only 5% to 6% in FY '25 and '26 also not much improvement because we're not adding any additional capacity in these 2 years. So maybe around the 5%, 5% in the 2 years.

Ketan Athavale: Got it. And can you throw some more light on how are the realizations currently in the industry and both domestic and export and how do we see them in the coming quarters? .

Madhu Sudhan Bhageria: Right now the realisation is similar to Q3, Q4. But going forward, I see Q2, Q3, Q4 improvement would be there explained in this quarter, there is a lot of labour problem in India. There's all migrated labour and because of elections and marriages. Normally, they migrate a lot, but the elections have also added to the migration. So there may be lot of labour shortage all over. So the weaving industry, spinning industry reduces production. So there is not much scope to improve margins in this quarter. But yes, we can see the imports and other things going down from maybe mid-June to end June, the margin would start improving.

Moderator: The next question is from the line of Pradeep Rawat from Yogya Capital.

Pradeep Rawat: Yes. I would like to know what is the sustainable margins that we can sustain in a normalized environment? And what we are doing or can we do in the future to increase this normalized margin?

Madhu Sudhan Bhageria: Normal margins, I would sales should range around 11% to 14%, depending on the market conditions. This cannot be stagnant. And we are trying to develop new products and improve the product to range and make some niche products to improve our margins. That's what we do. Like we have put up this cationic so this will start. This will help us in increasing some margin. So going forward, we will introduce some maybe new products to improve the margin, and we are going for this recycle that will enhance the margin. Of course, it is in a subsidiary of the company. But -- it will get merged with the company or the financials.

Moderator: The next question is from the line of Sarvesh Gupta from Maximal Capital.

Sarvesh Gupta: Sir, on your margin guidance, so basically, you are saying that we should revert to something like FY '22 kind of margins in a couple of years? But before that, let's say, till FY '20, our margins were always in the range of 7% to 8%. So what has structurally changed for us that we can say that going forward, a higher margin will be new normal? Because if you look at the history, it looks like -- yes. If you look at the long history of the company, it looks like FY '21 and FY '22 were aberration rather than your regular margin FY '24 looks more like in line with your historical margins?

Madhu Sudhan Bhageria: See, historically, China has been dominating this industry for the last 20 years. So people know that history only. Before that, there were huge margins, which were unwrapped up. People have made margins of like INR40 a kg also. So now China has stopped increasing production in this sector. So next 3 years, they have no plans to increase. And going forward, as per the labour is going down. I mean, the work force is reducing. I don't think they would be investing more into textile. So that is why historically, the margins were always lower. And last year also, what incremental production they have done is because of the investment they have already committed before they COVID that only got materialized last year.

Now going forward, they have no commitment of putting a new plant. As per my information from the machinery suppliers, the machine suppliers have already cut down their production by 75%, 80% because there are no orders. So going forward, there will be shortage of or there will be huge demand for these filaments yarn because the new capacity is not coming up. And any improvement in textile is only happening through Manmade Fiber and in manmade also, especially polyester filament yarn. So that is why I'm basically saying that our margins will improve and will be on a sustainable level for a long time.

Sarvesh Gupta: Understood, sir. And sir, like China, what we have heard is many of the industries which are highly polluting or highly energy intensive. So they have this tendency to sort of claw back on those industries. So any specific reason why you feel that this particular industry would not see much of a growth in China from an export potential?

Madhu Sudhan Bhageria: First of all, this is a very labour-intensive industry compared to other industries. And when your labour force is shrinking, then no country would like to invest in textile. And if you go to long history, right from England to Japan, Japan to Taiwan, Korea, these people are dominating the textile. But as they become developed in the country, textile always goes away from these 2 countries. So now China is going towards a developed country. So definitely, textile will go down because they will not be able to afford to make textile. Otherwise, the labour cost on the product would be very high. So -- but the internal consumption is so high. I'm not saying they will reduce, but if there will be no new growth coming into China.

So it is based on long time history of textile where it has moved from developed countries to developing countries. So now China going to a developed country, it will definitely reduce textiles and already signs their production is not increasing. The way it was increasing in previous 10, 15 years.

Sarvesh Gupta: And given that, do you see any export potential opening up for the company as such because...

Madhu Sudhan Bhageria: But right now, China is selling at a low price because the internal economy is not very good. So internal consumption is down. As it -- when it picks up, definitely, tail base prices and we'll be able to compete in export and export more. But there will be local demand, so why do we need to export yarn. We can always export Fabric or garments with more value addition in the Indian manufacturer need to make fabric yarn and garments and then export that. So the overall export of text will increase, not necessarily or beyond. It can increase in the form of fabric and garments.

Sarvesh Gupta: Understood. And finally, sir, you gave this example of loop industry. So basically, I mean they are investing 10x for just 3x the capacity that we...

Madhu Sudhan Bhageria: Their technology is different. They are converting. I just gave you an example to give you an idea that we are also not just totally out of line because this is a new industry and a new technology. People have no idea why this CapEx is there. So just to give you an idea that we are not out of line in what is happening in the world. Not exactly the same technology. They have a different technology.

Sarvesh Gupta: Understood. And apart from this, what is the CapEx for the next 2 years for us?

Madhu Sudhan Bhageria: Not much has been planned. Maybe we'll add some more yarn capacity if we see the margin improving. So there could be a dip of another INR150 crores in the main company to add more filament yarn lines or maybe go for more texturizing machine. But as on date, it is not on card. We'll wait for 1 or 2 quarters and see how market behaves, then we will commit to that investment.

Sarvesh Gupta: And our finance cost, sir, has fluctuated a lot, in fact, from last Q4 to this Q4, there has been a significant.

Madhu Sudhan Bhageria: I already explained, it is because of ECBs in Euros, which we have -- so the mark-to-market, which we have to do every quarter makes it a fluctuation.

Sarvesh Gupta: Sir, but going forward, how should we take it? Like what should be the normalized interest cost for your...

Madhu Sudhan Bhageria: Normalized interest cost on a yearly basis is not more than 7.5%, 8%. But quarter-to-quarter, it can fluctuate.

Moderator: The next question is from the line of Ketan Athavale from Robo Capital.

Ketan Athavale I just wanted to know on this PTA raw material which you talked about, Sorry, PTA. So when that comes up in India, do we expect all the $70 disadvantage to?

Madhu Sudhan Bhageria: It's very difficult, but I think a major amount would remain.

Ketan Athavale: Okay. And can you please tell again when this capacity is expected to develop in India?

Madhu Sudhan Bhageria: 2.4 million would be operational by end of calendar year 2025, which is of Indian oil and GAIL because the already these plants may at its later stages of it starting up. And Reliance has just started. So that we expect to complete by 2026 in December. What information we have from these companies. That's what I'm sharing with you.

Moderator: The next question is from the line of Gaurav Agrawal from Nine One Capital.

Gaurav Agrawal: I wanted to understand the dynamics on the PTA side. So obviously, this commodity is linked to crude oil. So I suppose to crude oil prices jump to how much time do we have to pass on the prices to our customers. And also in case they fall how much time does it reflect in our financial?

Madhu Sudhan Bhageria: Yes. Crude oil and PTA have a relationship, but it's not a 1:1 also demand and supply makes a lot of difference. So some fluctuation in the prices is also because of demand and supply. And normally, we are able to pass on if there is any increase in the raw material prices to our customers.

Gaurav Agrawal: But sir, how much is the larger, like, is it like a 1 month lag or like we are able to pass it on in a 3-month period -- or is it like on order as we are able to do for weeks.

Madhu Sudhan Bhageria: 1 or 2 weeks, not more than that. Every week, the local pricing changes based on whatever the international prices are. So we have a weekly raw material prices from the supplier, and we are able to pass it on within 1 or 2 weeks.

Gaurav Agrawal: Okay. Understood. And sir, also on your debt, it is at INR233 crores right now. How will it go in the next 2 years? And the previous participant as the cost of debt, you refer to 7.5% to 8%. So this is the cost of debt you refer to, right, 7.5% to 8%, including the hedging cost.

Madhu Sudhan Bhageria: Yes, yes 7.5% to 8% is including the hedging cost.

Gaurav Agrawal: Okay. And sir, is the debt outlook, sir, will it go up from here because of the recycling plants we are in...

Madhu Sudhan Bhageria: I don't think we will be taking any new debt at least in FY '25, FY '26, maybe for the new recycling project because there are certain government benefits, which are lead to interest subsidy. So in case there is a good government interest subsidy, we might take a loan in the new company. But in the main company, we don't plan to take loan as of now.

Gaurav Agrawal: Okay. Because, sir, in the next 2 years, I think we'll generate very substantial cash flow. And we don't intend to...

Madhu Sudhan Bhageria: But see, there is an interest subsidy given by the government. So it's better to take loan and deploy our funds somewhere else.

Gaurav Agrawal: Yes, definitely. Definitely. I was asking more a bigger question, which is next year on unit substantial cash flow, and we don't intend to do much CapEx in the core standalone business. So where do we, what is the capital allocation go from there? Because we generate quite substantial cash flow around INR400 crores, INR450 crores kind of cash flow.

Madhu Sudhan Bhageria: I believe subsequent quarter as and when it comes at I will let you know, right I've not made up what to do with it.

Moderator: The next question is from the line of Raj from Arjav Partners. Please go ahead.

Raj: I just have a doubt on the expansion front of the company. So you're going to spend around INR300 crores for an additional capacity of 25,000 tons, is it right? .

Madhu Sudhan Bhageria: Yes, 26,000 tons.

Raj: And we will have an EBITDA from this approx 40% as you said? .

Madhu Sudhan Bhageria: Yes. So it will be in the first year, it will be lower. The second year full year of running it should have EBITDA of EBITDA of around INR105 crores, INR110 crores.

Raj: Right. And this CapEx amount, last time, it was around INR150 crores, and this revised to INR300 crores. .

Madhu Sudhan Bhageria: I think I already explained to one of the participants, why it has gone up.

Raj: Actually with the point on that. .

Madhu Sudhan Bhageria: Yes. So it is because that we have changed the raw material. We were first planning to do it from polyester waste of yarn or PET bottles. Now we have moved to fabric waste, which is much cheaper. And that is the demand of the brands that we should do textile to textile. So now we'll be actually using fabric waste coloured as well as non-coloured and converting back to polyester. So there is the equipment which we need to put more costly equipment. That's why the investment has gone up.

Moderator: The next question is from the line of Yash Malhotra from JM Mutual Funds. .

Yash Malhotra: I was just looking at your cash conversion cycle, you seem to be doing pretty well. Do you think if we sacrifice some of that and go back to our previous levels of 30-odd days, we can help improve our margins?

Madhu Sudhan Bhageria: I don't think it's possible because 4, 5 days, we can -- right now, our total cycle is around 45 days and our debtors are hardly 10, 12 days, to reduce debtors more than that is very difficult. And we have a lot of imports of raw materials since it is not available in India. So you have to keep a little higher raw material inventory. And I think that depends on the market situation. So normally, our finished products are around 10, 12 days, but at the moment, we are, I think, 15-17 days so that's why it's very difficult to reduce less than this.

Yash Malhotra: That's correct. I'm not asking you to reduce. I'm asking you to sacrifice it even more. So if you were to...

Madhu Sudhan Bhageria: What should I sacrifice? Tell me.

Yash Malhotra: Lend your product on credit per se do you think?

Madhu Sudhan Bhageria: No, no. I don't want to do that because it can lead to a lot of bad debts. They are not secured credits.

Yash Malhotra: Correct.

Moderator: As there are no further questions, I would now like to hand the conference over to Mr. Madhu Sudhan Bhageria for closing comments.

Madhu Sudhan Bhageria: I thank all the participants for sparing their time and joining us, and we hope to meet again in July for the first Q1 FY '25 conference call. Thank you very much for sparing your time.

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