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28th October, 2016

National Stock Exchange of India Limited
Listing Department
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Mumbai-400 051

The Bombay Stock Exchange Limited
Listing Department
25th Floor, Pheroze Jeejeebhoy Towers
Dalal Street,
Mumbai - 400 001

Dear Sir,

Subject: Earnings Call on 27th October, 2016

This is in continuation to our letter dated 26th October, 2016 on the Earnings Call on 27th October, 2016. 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 Ltd Q2 FY17 Earnings Conference Call”

October 27, 2016



MANAGEMENT:

MR. MADHU SUDHAN BHAGERIA – VICE CHAIRMAN & MANAGING DIRECTOR

MR. ASHOK CHAUHAN – EXECUTIVE DIRECTOR

MR. R. P. GUPTA – CHIEF FINANCIAL OFFICER

STELLAR IR ADVISORS – INVESTOR RELATIONS ADVISOR



Moderator

Ladies and gentlemen, good day and welcome to the Filatex India Limited Earnings Conference Call hosted by Prabhudas Lilladher Private Limited. As a reminder all participants' 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 telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Kalpesh Parekh from Prabhudas Lilladher Private Limited. Thank you and over to you sir.

Mr. Kalpesh Parekh – Prabhudas Lilladher

Good morning to everybody, on behalf of Prabhudas Lilladher we welcome you all to the Filatex India's Q2 FY17 Results Conference Call. We have with us today Mr. Bhageria, Vice Chairman & Managing Director of the Company and Mr. R. P. Gupta, CFO of the company to discuss on the results. We congratulate the management at the outset on reporting a very very strong number. With that I handover the call to Mr. Bhageria for his initial remarks which will be followed by Q&A. Over to you sir.

Mr. Madhu Sudhan Bhageria - Vice Chairman & Managing Director

Good morning everybody, I welcome you all to the Earnings Conference Call for the quarter ended September 2016. I have with me Mr. Ashok Chauhan our Executive Director and Mr. R. P. Gupta our CFO and Stellar IR Advisors Private Limited, our investment relations advisors.

To give you a brief, Filatex was setup in 1994 now today it's a midsized synthetic filament yarn manufacturing company with over two decades of industry experience. In terms of market, marketing experience spans over four decades plus there is in-depth understanding of the markets and its segments. Starting from a small plant at Noida we moved to Dadra where we manufacture all types of filaments, POY, FDY, DTY in polyester, polypropylene and in different kinds of colours including black. All these products are based on bought out chips. So our next leap was setting up integrated manufacturing facility with continuous polymerisation which is located at Dahej. This is a world class plant in terms of technology and capacity. Initial operations at Dahej plant was primarily manufacturing polyester POY and polyester chips.

To add value added products to our portfolio the company went for adding fully drawn yarns and Dahej which was fully operational in September 2016 and it's running at almost 100% capacity. This was part of a well thought out initial conceptual and strategic plan as this expansion was done at just some incremental cost with the benefit of the latest state of the art technology for FDY from Barmag, Germany. We use the same continuous polymerisation and utilities. The company also went for forward integration at the Dahej plant to improve its marketing access by adding 40 texturing machines, the installation of which also has been completed by September 2016. Key input to draw textured yarn are the in-house manufactured POY at Dahej, I am delighted to say that the addition of value added products has helped the company to report significant growth in revenue and



profitability during the first two quarters of FY `17. Let me add that so called valued added product means adding more value to polyester melt. During Q2 FY `17, the company reported revenue of Rs. 382 crores which grew by almost 15% Year On Year as compared to Rs. 332 crores in corresponding quarter of last year.

During H1 FY `17 the company reported revenues of Rs. 732 crores which is a robust 16% Year On Year growth. EBITDA for the quarter is Rs. 34 crores which is a growth of 64% Year On Year. EBITDA margins during the quarter were at 9%, EBITDA margins for H1 FY `17 is Rs. 65 crores which is a robust 55% growth on Year On Year and it is 8.9% H1 margins, EBITDA margins. The net profit is Rs. 11.43 crores for the quarter, second quarter which is a significant growth of 198% Year On Year as compared to Rs. 3.84 crores in the corresponding quarter last year. For the first half this year our net profit is Rs. 21 crores as compared to Rs. 7 crores last year which is a 200% jump.

We now have plans to add a stream of bright polymers. This stream will be taking input from the primary reactor which has the inbuilt capacity for the first stage reaction. In fact this is the main reactor, subsequent parts of the process is stabilisation of the polymer for spinning. The polymer will be utilised to produce bright FDY, bright POY and bright chips. Bright yarns are gaining increasing acceptance in non apparel applications such as carpets and upholsteries as well as the growth in demand is good and sustainable. Now we are already producing bright yarns from chips, our capacity is small and we are unable to meet our customer's requirement.

The bright polymer line will also be at a fractional cost as compared to Greenfield projects. The company does not need to incur any expense on land infrastructure like water, power lines, sewerage, drainage etc. There will be some addition to utilities like additional load of power, compressed air, chillers. No additional managerial manpower is required. The top manpower remains lean. The headcount would go up only for direct supervisor and labour. The bright polymer would be available, the company will have one of the most diversified product basket of polyester yarns available under one umbrella which is POY, DTY and FDY both for bright and semi-dull segments in all variety of coarse and fine deniers. The Dadra plant will meet all fancy colours that our customers need. This is a brief introduction about the company and its results. Thank you all for listening. Now you are welcome to ask any questions that you have.

Moderator

Thank you very much. We will now begin with the question and answer session. Anyone who wishes to ask a question may press "*" and "1" on their touchtone telephone. If you wish to remove yourself from the question queue you may press "*" and "2". Participants are requested to use handsets while asking a question.

Ladies and gentlemen we will wait for a moment while the question queue assembles.

Anyone who wishes to ask a question can press "*" and "1" at this time.

We have the first question from the line of Mr. Dikshit Mittal from Subhkam Ventures. Please go ahead.



Mr. Dikshit Mittal - Subhkam Ventures

Good morning sir. Can you tell us the volumes of POY, Chips and FDY during this quarter and what was it last quarter?

Mr. Madhu Sudhan Bhageria - Vice Chairman & Managing Director

Yeah, sure, one minute. Do you want to know the total or individually?

Mr. Dikshit Mittal - Subhkam Ventures

Individual sir, sales volumes.

Mr. Madhu Sudhan Bhageria - Vice Chairman & Managing Director

Sales volumes, okay. Total volume is roughly 47,000 tonnes in this quarter and previously it was approximately 38,000 tonnes....

Mr. Dikshit Mittal - Subhkam Ventures

38 was last year second quarter?

Mr. Madhu Sudhan Bhageria - Vice Chairman & Managing Director

Yeah, last year second quarter against 47,000 tonnes out of which yarn is around 40,000 tonnes and 7,000 tonnes is chips. And last quarter it was 32,000 tonnes of yarn and 6,000 tonnes of chips

Mr. Dikshit Mittal - Subhkam Ventures

Sir yarn can you further breakup in FDY and POY like how much was the utilisation for that?

Mr. Madhu Sudhan Bhageria - Vice Chairman & Managing Director

I am sorry as of now it won't be possible for me to do it but I can tell you, we have a capacity of around 55,000 tonnes of FDY and we have produced almost 100% capacity. So, I mean if you make one fourth of that it will be around 13,000-13,500 tonnes for this quarter.

Mr. Dikshit Mittal - Subhkam Ventures

So it's full utilisation because we have put up 42, 000 right new FDY plant?

Mr. Madhu Sudhan Bhageria - Vice Chairman & Managing Director

Yeah, total is 42 and 12-13,000 we previously had at Dadra plant.

Mr. Dikshit Mittal - Subhkam Ventures

So sir, margin expansion we have seen this quarter is purely because of FDY volumes or...?

Mr. Madhu Sudhan Bhageria - Vice Chairman & Managing Director

FDY and also texturising machines which we have put up now.



Mr. Dikshit Mittal - Subhkam Ventures

Okay. That have also started contributing?

Mr. Madhu Sudhan Bhageria - Vice Chairman & Managing Director

Yes, right, they have also started, they are gradually like every month you are starting 3-4-5 machines.

Mr. Dikshit Mittal - Subhkam Ventures

So sir, by September have we put up the entire DTY capacity of 70,000 that you are planning?

Mr. Madhu Sudhan Bhageria - Vice Chairman & Managing Director

Yeah, we have put up entire capacity.

Mr. Dikshit Mittal - Subhkam Ventures

Okay so from Q3 onwards what kind of volumes will be there for the value addition from POY to DTY in Q3 and Q4?

Mr. Madhu Sudhan Bhageria - Vice Chairman & Managing Director

Yeah, the whole capacity will be available in Q3 and Q4, 70,000 tonnes of DTY and 42,000 tonnes of FDY which we have put up now.

Mr. Dikshit Mittal - Subhkam Ventures

So will we be able to sell all the volumes or the utilisation will be lower specially for DTY?

Mr. Madhu Sudhan Bhageria - Vice Chairman & Managing Director

DTY maybe a little lower because we are in the process of marketing it but third quarter I expect DTY should be closed to around maybe 80% and fourth quarter maybe 90%.

Mr. Dikshit Mittal - Subhkam Ventures

And sir just to get a sense on value addition, like if I see last year's you were making Rs. 5-6 per kg on blended volumes on EBITDA level. So this FDY and DTY what is the incremental margins that we can generate over and above last year's?

Mr. Madhu Sudhan Bhageria - Vice Chairman & Managing Director

Normally FDY is giving a very good margin, FDY EBITDA margin is that around Rs. 15-17 because FDY is produced in very fine deniers. Denier is the thickness of the yarn. Basically, if we just go with volumes it is not in our industry it is per threadline, one a same threadline you can produce three times the volume or single volume by increasing thickness of the yarn. But the profitability part threadline remains virtually similar, the EBITDA/ profitability. If I produce thicker yarn my profitability becomes almost one-third as per EBITDA, more or less. So, if I produce a fine yarn the EBITDA becomes three times per kg. So the correlation between the topline and the



bottomline also depends on the kind of deniers we produce. And also we make chips so chips gives us a very very low EBITDA margins that adds to the topline.

Mr. Dikshit Mittal - Subhkam Ventures

So, if I take full year, assume, like you will be doing 40,000 of FDY so if I multiply by Rs. 15 so Rs. 60 crores incremental EBITDA is possible for the full year vis-a-vis last year.

Mr. Madhu Sudhan Bhageria - Vice Chairman & Managing Director

That's right.

Mr. Dikshit Mittal - Subhkam Ventures

And sir what is the total debt is around Rs. 460 crores, right by the end of first half?

Mr. Madhu Sudhan Bhageria - Vice Chairman & Managing Director

That includes, that also includes Rs. 60 crores which is like quasi could be brought in by the promoters in the form of unsecured loans. And around Rs. 100 crores is working capital, balance is term loans.

Mr. Dikshit Mittal - Subhkam Ventures

So 460 includes Rs. 60 crores from the promoters?

Mr. Madhu Sudhan Bhageria - Vice Chairman & Managing Director

Promoters and Rs. 100 crores working capital, rest is term loans.

Mr. Dikshit Mittal - Subhkam Ventures

And sir warrants are separate, right or is it included in that?

Mr. Madhu Sudhan Bhageria - Vice Chairman & Managing Director

No, warrants already have been converted to shares now.

Mr. Dikshit Mittal - Subhkam Ventures

And sir what will be the incremental debt we will be taking for the bright polymer plant?

Mr. Madhu Sudhan Bhageria - Vice Chairman & Managing Director

We are taking about Rs. 260 crores of debt.

Mr. Dikshit Mittal - Subhkam Ventures

And capital cost is around Rs. 330 crores, right?

Mr. Madhu Sudhan Bhageria - Vice Chairman & Managing Director

Rs. 330 crores, right.



Mr. Dikshit Mittal - Subhkam Ventures

And sir this will be domestic debt or...?

Mr. Madhu Sudhan Bhageria - Vice Chairman & Managing Director

Out of this around Rs. 160 crores is from a German bank and that will be at a very low around 1.1% interest over Euribor and balance through our Indian banks Rs. 100 crores, roughly Rs. 100 crores.

Mr. Dikshit Mittal - Subhkam Ventures

And sir last question from my side, this bright polymer what will be the kind of EBITD margins that are available based on the current prices?

Mr. Madhu Sudhan Bhageria - Vice Chairman & Managing Director

Bright polymer out of 300 tonnes of bright polymer, we will be producing around 195 tonnes of FDY. But in bright the FDY range is from 150-200 deniers to 50 deniers so EBITDA margins would be around Rs. 13 because the denier range as I explained you is going up. In semi-dull the main denier, average denier is 57, in bright the average denier might be around 80. So that is why the EBITDA margins will be little lower, 25 tonnes is POY where EBITDA margins will be around Rs. 5-6 and then balance would be chips where EBITDA margins would be Rs. 2. So, it's a mix of three products.

Mr. Dikshit Mittal - Subhkam Ventures

Can you give the breakup like, you are putting 108,000, right?

Mr. Madhu Sudhan Bhageria - Vice Chairman & Managing Director

195 tonnes per day is FDY with EBITDA margins of Rs. 13, Rs. 13-14 it can be and 25 tonnes of POY with EBITDA margins of Rs. 5-6 and 85 tonnes of chips with EBITDA margins of Rs. 2.

Mr. Dikshit Mittal - Subhkam Ventures

Chips how much volumes sir?

Mr. Madhu Sudhan Bhageria - Vice Chairman & Managing Director

85 tonnes per day, all these are per day and we normally take 360 days working.

Mr. Dikshit Mittal - Subhkam Ventures

Okay. Thank you sir.

Moderator

Thank you.

We have the next question from the line of Mr. Umesh Patel from TCG Asset Management Company. Please go ahead.



Mr. Umesh Patel - TCG Asset Management

Congratulations first of all for reporting good set of numbers to all of you.

Mr. Madhu Sudhan Bhageria - Vice Chairman & Managing Director

Thank you.

Mr. Umesh Patel - TCG Asset Management

Sir, you mentioned rightly about the commissioning of two capacities that is 70,000 DTY and 42,000 FDY. So what CAPEX you incurred for this and what is the revenue potential of these two plants that will add incremental revenue to overall revenues?

Mr. Madhu Sudhan Bhageria - Vice Chairman & Managing Director

CAPEX for this was Rs. 240 crores for both and revenues the FDY will be only adding more to the topline because we will be using our own POY. So the value addition in this is roughly around Rs. 13 a kg in DTY, FDY we have put 42,000 and the average price would be anything from Rs. 85-90 so you can calculate.

Mr. Umesh Patel - TCG Asset Management

FDY is high margins product, right?

Mr. Madhu Sudhan Bhageria - Vice Chairman & Managing Director

FDY is a high margins product because primarily what FDY we have put, the denier range is quite low, I mean you are producing very fine deniers used for ladies and children garments.

Mr. Umesh Patel - TCG Asset Management

So post expansion of this 42,000 what would be the contribution of FDY to your overall revenue?

Mr. Madhu Sudhan Bhageria - Vice Chairman & Managing Director

Already we have 13,000 tonnes so overall we will have 55,000 tonnes so that is around...

Mr. Umesh Patel - TCG Asset Management

What proportion of overall capacity is that?

Mr. Madhu Sudhan Bhageria - Vice Chairman & Managing Director

Total is coming around, the topline would be around close to Rs. 180 crores I think....

Mr. Umesh Patel - TCG Asset Management

That is how much of your....?



Mr. Madhu Sudhan Bhageria - Vice Chairman & Managing Director

55,000 into 85, Rs. 467 crores. I can give you daily based numbers, I mean you can calculate. Like I have given you the price, I have given you the margins and also I have given you the volumes.

Mr. Umesh Patel - TCG Asset Management

You mentioned that FDY generally contributes higher margins....?

Mr. Madhu Sudhan Bhageria - Vice Chairman & Managing Director

Yeah, FDY which we have put up now is giving higher margins. Previously what we had is we are running high deniers and colour yarns that is not giving like Rs. 15-17 a kg but that around gives us Rs. 6-8 a kg because there we are making on an average 140 deniers, here we are making on an average as I said around 57-58 deniers.

Mr. Umesh Patel - TCG Asset Management

So revenue mix will drastically change in the next 2 years, right at the same time your realisation would almost double, I mean more than 50%?

Mr. Madhu Sudhan Bhageria - Vice Chairman & Managing Director

Yeah, because right now I will also tell you I mean in the number of threadlines whatever threadlines I had for this expansion which we have just completed we have almost double the threadlines and that too with FDY. So obviously the profitability will go up and in the proposed expansion which we are doing again we are almost doubling our gain. Right now we have around 5,300 threadlines in our Dahej plant and we will be putting almost another 5,000 threadlines. And number of threadlines means number of yarns you produce, I mean you can produce thick and thin as you require in the market. So that would change the volume but the EBITDA on a number doesn't change.

Mr. Umesh Patel - TCG Asset Management

Yeah, so that 5,000 thread would again you know incur how much CAPEX?

Mr. Madhu Sudhan Bhageria - Vice Chairman & Managing Director

That's what I said Rs. 330 crores is the CAPEX for the new expansion.

Mr. Umesh Patel - TCG Asset Management

And that will be commissioned by the next year?

Mr. Madhu Sudhan Bhageria - Vice Chairman & Managing Director

Yeah by Calendar Year 2017 end we are posed to complete, by January 2018 we should be having production from that.



Mr. Umesh Patel - TCG Asset Management

And the overall capacity utilisation as of now you mentioned is 100%?

Mr. Madhu Sudhan Bhageria - Vice Chairman & Managing Director

For the yarns it is 100%, not for the chips because chips doesn't give any EBIDTA margin, as of now, there is a lot of competition. So that is why we are putting more yarn facilities to take care of that.

Mr. Umesh Patel - TCG Asset Management

Okay. Thank you very much.

Mr. Madhu Sudhan Bhageria - Vice Chairman & Managing Director

Thank you.

Moderator

Thank you.

We have the next question from the line of Mr. Kalpesh Gothi from Veda Investment Managers. Please go ahead.

Mr. Kalpesh Gothi - Veda Investment Managers

Hello good morning sir.

Mr. Madhu Sudhan Bhageria - Vice Chairman & Managing Director

Good morning.

Mr. Kalpesh Gothi - Veda Investment Managers

Sir, congratulations for the good set of numbers. Sir, can you give me the brief about your production? You can give me the value chain, explain me the value chain of our company?

Mr. Madhu Sudhan Bhageria - Vice Chairman & Managing Director

We start with the PTA and MEG which are the basic raw materials for making polyester. I will give you just to give you an idea I will put numbers to them. The cost of these required to be made converted into polyester as of now is around Rs. 55 a kg. So that we call it as a melt cost. And then the next stage is chips, from that melt either I can take directly and make a yarn or make chips out of that. So, if I make chips the prices, value addition is just Rs. 4.5-5 so that is like almost my direct cost will just give me EBIDTA of 50 ps or Re. 1 at times. And then if I make a POY then the value addition is around Rs. 15-17 over melt and if I make FDY the value addition goes as high as Rs. 30-35.

Mr. Kalpesh Gothi - Veda Investment Managers

Sir, can you give me the realisation of the chips POY and...?



Mr. Madhu Sudhan Bhageria - Vice Chairman & Managing Director

Also one more thing on POY if we do DTY we add another Rs. 12-13, this is what the value chain is all.

Mr. Kalpesh Gothi - Veda Investment Managers

So after POY we can draw the DTY and FDY, right?

Mr. Madhu Sudhan Bhageria - Vice Chairman & Managing Director

No, FDY is made directly from the polymer DTY once you make POY then you have to take on another machine and do DTY. DTY is draw texturising basically you are drawing the yarn and giving it a false twist. So these are two steps, one you have to make a POY and then do DTY but FDY is made directly from polymer. You are basically drawing the yarn during the process of making it.

Mr. Kalpesh Gothi - Veda Investment Managers

Sir, what is the realisation of all the chips?

Mr. Madhu Sudhan Bhageria - Vice Chairman & Managing Director

What, I didn't get you?

Mr. Kalpesh Gothi - Veda Investment Managers

What is the realisation of the chips?

Mr. Madhu Sudhan Bhageria - Vice Chairman & Managing Director

I told you around Rs. 4-5 over melt cost, melt cost keeps on changing with the prices of the raw materials so it is around Rs. 4-5 over melt cost.

Mr. Kalpesh Gothi - Veda Investment Managers

And what kind of margins we are making?

Mr. Madhu Sudhan Bhageria - Vice Chairman & Managing Director

In this case hardly so not more than Re. 1 EBITDA margin in chips.

Mr. Kalpesh Gothi - Veda Investment Managers

So basically DTY, FDY and DTY....?

Mr. Madhu Sudhan Bhageria - Vice Chairman & Managing Director

DTY, FDY, POY versus the margins only that's why we are trying to increase that only. Like by DTY, doing DTY we save around Rs. 2.5 on POY, on transportation and packing cost and everything.

Mr. Kalpesh Gothi - Veda Investment Managers

Sir, we planned expansion in the bright FDY so when that will be going to commercialise?



Mr. Madhu Sudhan Bhageria - Vice Chairman & Managing Director

Calendar Year 2018, starting of Calendar Year 2018 we should do commercial production.

Mr. Kalpesh Gothi - Veda Investment Managers

So that was for the Rs. 330 crores expansion, right?

Mr. Madhu Sudhan Bhageria - Vice Chairman & Managing Director

Rs. 330 crores expansion that will come into production by Calendar Year 2018 beginning January.

Mr. Kalpesh Gothi - Veda Investment Managers

Okay. Thank you sir.

Mr. Madhu Sudhan Bhageria - Vice Chairman & Managing Director

Thank you.

Moderator

Thank you. A reminder to the participants to ask a question you may press “*” and “1” on your touchtone phone.

We have the next question from the line of Mr. Gaurav Punjabi from East India Securities. Please go ahead.

Mr. Gaurav Punjabi - East India Securities

Hi sir, congratulations for good set of numbers.

Mr. Madhu Sudhan Bhageria - Vice Chairman & Managing Director

Thank you.

Mr. Gaurav Punjabi - East India Securities

Few basic questions, sir what is the depreciation policy we follow currently?

Mr. Madhu Sudhan Bhageria - Vice Chairman & Managing Director

We follow a straight line policy depending on the life of the machine.

Mr. Gaurav Punjabi - East India Securities

And what would be the life approximately?

Mr. Madhu Sudhan Bhageria - Vice Chairman & Managing Director

The main machinery life we have taken as 25 years.

Mr. Gaurav Punjabi - East India Securities

And sir when we talk about the melting process we need PTA and MEG, correct?



Mr. Madhu Sudhan Bhageria - Vice Chairman & Managing Director

Right.

Mr. Gaurav Punjabi - East India Securities

So what is the proportion of PTA and MEG that would be required, for example if I want to make 1KI chips...?

Mr. Madhu Sudhan Bhageria - Vice Chairman & Managing Director

You require roughly 860 grams of PTA and 333 grams of MEG.

Mr. Gaurav Punjabi - East India Securities

So this is for making chips, right?

Mr. Madhu Sudhan Bhageria - Vice Chairman & Managing Director

No, this is for making the polymer, it's like a melt. Now you can convert it into chips or yarn it is up to you.

Mr. Gaurav Punjabi - East India Securities

Okay. So that is 1:1 after polymer?

Mr. Madhu Sudhan Bhageria - Vice Chairman & Managing Director

Yeah, with slight wastages if you are converting it to yarn maybe 0.5%, 1%, 1-5% it depends.

Mr. Gaurav Punjabi - East India Securities

Sir, if I look into there are very fragmented players in the market so if I have to say like Filatex as a company where would it fall like in the positioning?

Mr. Madhu Sudhan Bhageria - Vice Chairman & Managing Director

Filatex is among the first six, Filatex is 6th number in the market as far as the volumes are concerned of polyester filament yarn.

Mr. Gaurav Punjabi - East India Securities

Okay sir, that's it from my side. Thank you.

Mr. Madhu Sudhan Bhageria - Vice Chairman & Managing Director

Thank you.

Moderator

Thank you. A reminder to the participants to ask a question you may press "*" and "1" on your touchtone phone.

We will take the next question from the line of Mr. Ayush Mittal from Mittal & Co.. Please go ahead.



Mr. Ayush Mittal - Mittal & Co.

Good morning sir.

Mr. Madhu Sudhan Bhageria - Vice Chairman & Managing Director

Good morning.

Mr. Ayush Mittal - Mittal & Co.

Congratulations on the good performance. I wanted to understand that we are seeing that the whole industry is expanding pretty rapidly, the other companies like Sumit Industries also who have been expanding in doing very well while the margins have been very volatile for the industry what has been the change because of which all of the companies are expanding and what kind of sustainable margins do you see going forward?

Mr. Madhu Sudhan Bhageria - Vice Chairman & Managing Director

Right now for last six months and going forward I don't see anybody expanding so much. There might be slight expansions happening, there is no grassroot or Greenfield project coming in as of now. Any Greenfield project would take atleast 2 years to commence production. So right now nobody is expanding, maybe people who would have extra polymer available would put some machines to convert it into yarn. As I told you because there is no margins in the chips business. And previously I think in 2012-13 there were lot of bunched up production capacities which came here. So now with the demand going up that has been taken care of. Also exports are increasing from India because now Indian textured yarn is becoming very competitive against China also. That is why the margins are also going up.

Mr. Ayush Mittal - Mittal & Co.

And like what kind of visibility do you have about the reasons to believe that the current kind of margins would be sustainable for a longer period?

Mr. Madhu Sudhan Bhageria - Vice Chairman & Managing Director

I see that margins should improve in the next 2-3 years because demand is increasing rapidly now. And now as I told you we are able to compete with China in the export market that will add more advantage. And with GST coming in also a lot of anomalies which are there in the textile sector would be taken care of. So it will rather lead to better margins now.

Mr. Ayush Mittal - Mittal & Co.

And as we can see in the Annual Report and the presentation that the company is wanting to move up the value chain produce FDY and the other products which will fetch you better margins, we see that the other competitors are also doing similar things. Do you see the competitive intensity leading to lower margins or more competitiveness in these particular new products which you are also targeting?



Mr. Madhu Sudhan Bhageria - Vice Chairman & Managing Director

No, I don't think so because the demand is also increasing, in FDY in last 5 years the demand growth has been more than 20% on CAGR basis, and for POY and textured also it is close to 10% so no new big capacities is coming in. As of now India's capacity is more than 3.5 million tonnes per year for both the products.

Mr. Ayush Mittal - Mittal & Co.

Does texturing involve a lot of labour inputs?

Mr. Madhu Sudhan Bhageria - Vice Chairman & Managing Director

Texturing involves some more labour compared to making a POY or a FDY that is why we are becoming more competitive against China because labour cost in China has gone up drastically.

Mr. Ayush Mittal - Mittal & Co.

So what kind of numbers are we putting for texturing kind of people do we need?

Mr. Madhu Sudhan Bhageria - Vice Chairman & Managing Director

One machine normally needs around 8-10 people for continuous working.

Mr. Ayush Mittal - Mittal & Co.

And we are putting I think...?

Mr. Madhu Sudhan Bhageria - Vice Chairman & Managing Director

We have already put up 40 machines.

Mr. Ayush Mittal - Mittal & Co.

We have already put up 40 machines and what is the volume capacity of these 40 machines?

Mr. Madhu Sudhan Bhageria - Vice Chairman & Managing Director

It is about 190 tonnes per day.

Mr. Ayush Mittal - Mittal & Co.

And this has started in September itself?

Mr. Madhu Sudhan Bhageria - Vice Chairman & Managing Director

Totally all the machines have been commissioned by September but as I said that right now for the working we are looking at around 80% only. And gradually in next 3-6 months we should approximately 90%.

Mr. Ayush Mittal - Mittal & Co.

And sir what plans does the company have on the debt? What are the thoughts on the debt or reduce or manage the same going forward?



Mr. Madhu Sudhan Bhageria - Vice Chairman & Managing Director

Every year we are paying almost Rs. 45-50 crores debt.

Mr. Ayush Mittal - Mittal & Co.

So as of now we see that the debt levels are almost Rs. 500 crores odd, Rs. 450-500 crores range?

Mr. Madhu Sudhan Bhageria - Vice Chairman & Managing Director

Yeah, this also includes working capital otherwise the debt is close to Rs. 300 crores as of now.

Mr. Ayush Mittal - Mittal & Co.

But including working capital are you comfortable this amount and this amount will remain the same or do you plan to reduce with the improving cash flows or something?

Mr. Madhu Sudhan Bhageria - Vice Chairman & Managing Director

No, we plan to reduce it as and when our cash flows allows us to reduce it. But I don't think we will be able to reduce it till the next expansion is in place because we will be borrowing more...

Mr. Ayush Mittal - Mittal & Co.

So the loans can expand also, what is the CAPEX for the next round of expansion?

Mr. Madhu Sudhan Bhageria - Vice Chairman & Managing Director

The next round of expansion, the CAPEX is Rs. 330 crores out of that borrowing is around Rs. 260 crores.

Mr. Ayush Mittal - Mittal & Co.

Any fundraising plans for this?

Mr. Madhu Sudhan Bhageria - Vice Chairman & Managing Director

No, no, we will be able to do it through our internal accruals the balance requirement.

Mr. Ayush Mittal - Mittal & Co.

Okay. Thank you.

Mr. Madhu Sudhan Bhageria - Vice Chairman & Managing Director

Thanks.

Moderator

Thank you.

We take a follow-up question from the line of Mr. Dikshit Mittal from Subhkam Ventures. Please go ahead.



Mr. Dikshit Mittal - Subhkam Ventures

Sir, just missed one point when you explained the value addition. So from POY to DTY how much is the incremental EBITDA margins that happens?

Mr. Madhu Sudhan Bhageria - Vice Chairman & Managing Director

Around Rs. 3.

Mr. Dikshit Mittal - Subhkam Ventures

Rs. 3, okay. And sir this Rs. 240 crores CAPEX that you did how much was on DTY machines and how much was on FDY?

Mr. Madhu Sudhan Bhageria - Vice Chairman & Managing Director

FDY was close to around Rs. 100 crores and balance on DTY.

Mr. Dikshit Mittal - Subhkam Ventures

Okay. Thanks sir.

Moderator

Thank you.

We take another follow-up question, sorry it's a new question from the line of Mr. Ankit Gaur from Systematix Shares & Stocks. Please go ahead.

Mr. Ankit Gaur from Systematix Shares & Stocks

Hi, thanks for taking my questions sir. Sir, a question regarding demand, you said that DTY demand in last 5 years has grown by 20% CAGR....

Mr. Madhu Sudhan Bhageria - Vice Chairman & Managing Director

That is for FDY I said, DTY I said is close to 10%.

Mr. Ankit Gaur from Systematix Shares & Stocks

Sorry. So sir this demand is mainly coming from domestic markets or has come from domestic or exports market?

Mr. Madhu Sudhan Bhageria - Vice Chairman & Managing Director

FDY is totally domestic.

Mr. Ankit Gaur from Systematix Shares & Stocks

And DTY sir?



Mr. Madhu Sudhan Bhageria - Vice Chairman & Managing Director

DTY is from both domestic as well as exports.

Mr. Ankit Gaur from Systematix Shares & Stocks

So when we say FDY demand has grown by 20% CAGR so has it replaced some other form of thread or has it replaced some other form of yarn or incremental....?

Mr. Madhu Sudhan Bhageria - Vice Chairman & Managing Director

It's both, it is also replacing some other threads because today polyester is one of the cheapest yarn available. So it is replacing some other threads also like cotton and viscose.

Mr. Ankit Gaur from Systematix Shares & Stocks

And increased industry ...

Mr. Madhu Sudhan Bhageria - Vice Chairman & Managing Director

And also the demand is increasing.

Mr. Ankit Gaur from Systematix Shares & Stocks

So if I want to say increased the user industries so in that case which industries have picked up for you guys for entire polyester yarn markets in last 5 years?

Mr. Madhu Sudhan Bhageria - Vice Chairman & Managing Director

Other than fabric, upholstery and carpet industry has started using polyester in a very big way now.

Mr. Ankit Gaur from Systematix Shares & Stocks

And what would be the case of, DTY is completely export....?

Mr. Madhu Sudhan Bhageria - Vice Chairman & Managing Director

DTY, no DTY I would say would be around 75-80% local and balance exports.

Mr. Ankit Gaur from Systematix Shares & Stocks

And sir my second question is with regard to this bright polymer. As we are setting up a capacity there what is the appetite for Indian market? Is there a sizable player catering this product...?

Mr. Madhu Sudhan Bhageria - Vice Chairman & Managing Director

Very few players who are catering to bright FDY market as of now maybe around 3-4 people only making bright FDY, rest people are making semi-dull only.

Mr. Ankit Gaur from Systematix Shares & Stocks

So what would be the appetite for Indian market sir?



Mr. Madhu Sudhan Bhageria - Vice Chairman & Managing Director

Good appetite for Indian market because this is going, this bright mainly goes in a big way upholstery market. So bright means it give shiny yarn, sparkling effect so the demand for that is growing quite a bit.

Mr. Ankit Gaur from Systematix Shares & Stocks

And sir what is the market size here in India for bright if we can give some numbers there?

Mr. Madhu Sudhan Bhageria - Vice Chairman & Managing Director

Bright would be close to around 800,000 tonnes per year.

Mr. Ankit Gaur from Systematix Shares & Stocks

And it is growing at what rate sir?

Mr. Madhu Sudhan Bhageria - Vice Chairman & Managing Director

Bright market there are no numbers but my feeling it is growing around 15%. There are no different numbers available but being in the industry we get a feel what is happening.

Mr. Ankit Gaur from Systematix Shares & Stocks

And sir is it the same polymer right now can be used in packaging films also?

Mr. Madhu Sudhan Bhageria - Vice Chairman & Managing Director

Yeah, this polymer can be used like the chips which we make can go for film also.

Mr. Ankit Gaur from Systematix Shares & Stocks

And probably the PET bottles also...?

Mr. Madhu Sudhan Bhageria - Vice Chairman & Managing Director

PET bottles that you have to reprocess and this is a different process. You have to add something in that which is like IPA you have to add and you have to reprocess, you have to do a solid state polymerization. IV has to be increased.

Mr. Ankit Gaur from Systematix Shares & Stocks

Okay. For that purpose do we need a huge CAPEX or just to addition...?

Mr. Madhu Sudhan Bhageria - Vice Chairman & Managing Director

You need a huge CAPEX also and then we will not be able to do from the same stream. In one stream we can make only one kind of a product, if you are making a product for yarn then we can't make it for bottle chip. Of course the chip capacity which we have extra can go for film but not for bottle.



Mr. Ankit Gaur from Systematix Shares & Stocks

And sir in coming years will you be able to utilise entire chips capacity for captive purpose or what's the plan as there is no margin?

Mr. Madhu Sudhan Bhageria - Vice Chairman & Managing Director

Once this is stabilised may be we have spare capacity of chips available so we might put some more machines...

Mr. Ankit Gaur from Systematix Shares & Stocks

To produce yarn ?

Mr. Madhu Sudhan Bhageria - Vice Chairman & Managing Director

Because chips worldwide is not a revenue business other than for the bottle grade. This comes out of default, when you are putting polymerisation you have to choose economical size. And if we can't put that much for CAPEX, for yarn at that time so slowly you have to put yarn machines to take care of that.

Mr. Ankit Gaur from Systematix Shares & Stocks

Okay got it sir. Thanks a lot. Thank you.

Mr. Madhu Sudhan Bhageria - Vice Chairman & Managing Director

Thank you.

Moderator

Thank you. A reminder to the participants to ask a question you may press "*" and "1" on your telephone.

We will take a follow-up question from the line of Mr. Gaurav Punjabi from East India Securities. Please go ahead.

Mr. Gaurav Punjabi - East India Securities

Sir, just a couple of questions I missed before. If I look at your debt and if I take effective interest rate, the rate has gone up. Any reason or is that including...?

Mr. Madhu Sudhan Bhageria - Vice Chairman & Managing Director

The interest which we showed also includes the bank charges and the forward cover charges. So it doesn't give you a right picture about just the interest on the debt.

Mr. Gaurav Punjabi - East India Securities

So effectively we would be taking at about what 11%?



Mr. Madhu Sudhan Bhageria - Vice Chairman & Managing Director

Our borrowing from the banks is around term loan around 13% but we have converted most part of that into foreign currency convertible loans. So there we get a reduction of around 1.5-2% and Rs. 70 crores of debt is at 1.55 over EURIBOR from German bank for last machines we bought from Germany.

Mr. Gaurav Punjabi - East India Securities

All the foreign currency debts are hedged or they are open?

Mr. Madhu Sudhan Bhageria - Vice Chairman & Managing Director

Rs. 70 crores which we have taken from a German bank is not hedged, it's in Euro, rest all the loans which we have taken in dollars are hedged.

Mr. Gaurav Punjabi - East India Securities

So there was a recent CAPEX for Rs 241 crores...

Mr. Madhu Sudhan Bhageria - Vice Chairman & Managing Director

This is what we completed in September....

Mr. Gaurav Punjabi - East India Securities

Correct, the whole amount has been booked in the Balance Sheet side, there is no pending amount for that CAPEX?

Mr. Madhu Sudhan Bhageria - Vice Chairman & Managing Director

Yeah, the whole amount has been booked in this last quarter.

Mr. Gaurav Punjabi - East India Securities

And just one clarification actually you said Rs. 330 crores on the exchange there is a presentation which says Rs. 343 crores?

Mr. Madhu Sudhan Bhageria - Vice Chairman & Managing Director

Yeah, that's correct. Rs. 13 crores is actually the insurance premium which the German banks would be charging us which will become a part of the loan only and which has to be paid over 10 years so that has increased the amount. So whatever loans they give they charge insurance on that, Hermes Cover fee which is approximately Rs. 13 crores. And then that is also built in the loan part so if they are giving 160 so it will become 173 and to be paid over 10 years.

Mr. Gaurav Punjabi - East India Securities

Sir, on the demand side just one follow-up question since our inputs are basically crude linked and crude prices have gone up recently. And on the other side cotton prices have started to soften because what price reports we



are following that cotton prices have actually gone up from 130 to about Rs. 105 whereas crude on the other hand is about 15%. So how do we manage like....?

Mr. Madhu Sudhan Bhageria - Vice Chairman & Managing Director

No, we don't have a direct competition with cotton. Cotton prices were similar or little lower even when the crude was above 100. Now the crude has come to 50 cotton prices have gone more than that. I don't know about per kg but I know it has touched almost 50,000 per bale which is 357 kgs.

And now maybe the prices because the cotton crop coming in would have soften a little bit. But still those prices are much above polyester prices, polyester is one of the cheapest yarn available. Once people start using polyester it cannot be replaced by cotton or anything. And there is shortage of cotton crop, I think is much lower compared to last year, this year even in India and worldwide. So the increase of polyester is going to definitely be there. And for the hedging I will just tell you we have substantial exports now so we also have a natural hedge. In the first six months we have exported roughly around Rs. 100 crores.

Mr. Gaurav Punjabi - East India Securities

So those are billing in Euros or Dollars?

Mr. Madhu Sudhan Bhageria - Vice Chairman & Managing Director

Mostly Dollars but it definitely gives you an advantage. And that Rs. 70 crores which we have kept unhedged and this has to be paid in a period of 7 years.

Mr. Gaurav Punjabi - East India Securities

Okay sir. Thank you.

Mr. Madhu Sudhan Bhageria - Vice Chairman & Managing Director

Thank you.

Moderator

Thank you. A reminder to the participants to ask a question you may press "*" and "1" on your telephone.

Mr. Kalpesh Parekh – Prabhudas Lilladher

If there are no participants for questions we can windup the call.

Moderator

Sure sir, there are no questions now.

Mr. Kalpesh Parekh – Prabhudas Lilladher

Thank you everybody for participating into the call. Thank you sir.



Filatex India Limited
October 27, 2016

Mr. Kalpesh Parekh – Prabhudas Lilladher

Yeah. Thank you.

Mr. Madhu Sudhan Bhageria - Vice Chairman & Managing Director

Okay. Thanks. Bye.

Moderator

Thank you. On behalf of Prabhudas Lilladher Private Limited that concludes this conference, thank you for joining us and you may now disconnect your lines.