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10th August, 2017

National Stock Exchange of India Limited
Listing Department
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Bandra-Kurla Complex, Bandra (E)
Mumbai-400 051

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

Subject: Earnings Call on 3rd August, 2017

Dear Sir,

This is in continuation to our letter dated 2nd August, 2017 on the Earnings Call on 3rd August, 2017. 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 – 03/08/2017

- **Moderator**
- Ladies and gentlemen, good day and welcome to the Filatex India Limited Q1 FY18 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 phone. Please note that this conference is being recorded. I now 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**
- Thanks Rayo. Good evening friends, on behalf of PL we welcome you all to Filatex Q1 Results Conference Call. We have with us today Mr. Madhu Sudhan Bhageria, Chairman & Managing Director of the company, Mr. Ashok Chauhan, Wholetime Director, Mr. R. P. Gupta, CFO of the company. At the outset, we congratulate the management for posting good set of numbers. I would now handover the line to Mr. Madhu Sudhan ji for his initial remarks followed by a Q&A. Over to you sir.
- **Mr. Madhu Sudhan Bhageria - Chairman & Managing Director**
- Thanks. Hello and good afternoon friends. Once again, I welcome you all on our Earnings Call for Quarter Ended 30th June, 2017. I presume you have had a look at the presentations sent to you. Some of you would perhaps be aware about Filatex. Just in case there are new entrants let me do a quick round on our background and our journey till date, before we move on to the financial performance of Q1 FY18.
- We have transited from trading to manufacturing. After being a leader in trading for more than 2 decades in synthetic fibre business we decided to become a manufacturer. The journey started with the Monofilament plant in Noida with a capacity of 500 tonnes per annum in 1994. We in a few months became a preferred supplier of Monofilament Yarns in the Indian market.
- The company decided to add capacity and also diversify into Polyester Multifilament Yarns. As we had an in-depth experience of trading in these products and very well versed with the customer's requirements, in 1996 we setup a new plant in Dadra which was close to the Synthetic Textile Hubs. New products like Special Polyester Filament Yarns, Polypropylene Multifilament Yarns, Dope Dyed Yarns, POY and Fully Drawn Yarns were introduced at our Dadra plant. We, for around

a decade, kept adding new lines to our new products and capacities along with supporting infrastructure. By 2010, we had utilised all the space at the Dadra plant. Any further expansion had to be at new location which required us to establish another manufacturing facility at a different location. At Dadra, our operations were from chips to yarn. Then we planned to setup a continuous Polymerisation plant to make yarns and chips.

- Considering the locational advantage of Dahej, its proximity to ports and raw material suppliers we planned the next round of expansion as a Greenfield project at Dahej.
- We setup a 600 tonnes Polymerisation capacity with an option to increase it to 900. Initial phase had 6 lines for making POY along with the Polymerisation. This was Direct Melt Spinning and it could produce coarse and fine deniers depending on the market needs. The total POY capacity would average between 260-300 tonnes depending on the deniers and balance would be chips. In 2016, the company added FDY lines and 42 Texturising machines thereby increasing our product offerings. FDY lines used the Polymer Melt directly to convert it to Fully Drawn Yarns. Texturising machines used POY which we were manufacturing as an input and add value to it and that is directly used for making fabrics. Our company thereby commenced production of FDY and DTY which covered its product offering in the Semi Dull and Coloured category of yarns. With addition of Texturing Yarns we were able to offer products to global customers as well. The share of exports increased significantly with the addition of Texturised Yarns.
- More than 80% of our exports consist of Texturised Yarns with customers in more than 28 countries mainly Brazil, Korea, Bangladesh, Egypt and Turkey. For the Year Ended March, 2017 the share of exports in our overall revenue was around 18%. After finishing this we thought of adding Bright Polymer capacity which was missing from our product basket. Now your company is in a process of implementing Bright Polymer capacity at Dahej. This project will include Bright Polymer capacity of 1,08,000 tonnes per annum, FDY Bright of 68,400 tonnes per annum, 9,000 tonnes per annum of Bright POY and 30,600 tonnes of Bright Chips, out of this 13,000 would be used in-house in our Dadra plant. We expect to start commercial production by March 2018. The financial closure of the project has been achieved and the design & engineering work has been completed. The civil work and fabrication of vessel & piping are in full swing. Ordering of utilities and other items are also more or less over. The expansion in Bright Polymer would benefit your company by way of increasing our product basket. Your company will now be able to offer a complete product basket of Bright, Semi Dull and Coloured Yarns in various denier range in all FDY, POY and Textured.
- This will help the company in strengthening its relationship with customers in India and across the globe. And this will also help us in optimising our utilisation of existing resources. The new expansion will

utilise the existing Polymerisation capacity, land and common infrastructure thereby resulting in savings in the operating as well as capital cost. This expansion will also be getting some benefits in the state GST. So whatever investment we make in this project it will be eligible to get state GST refund paid by the company, we will get 70% as refund. GST implementation has also opened up PAN India market for us. Earlier selling products outside Gujarat would attract 2% CST which will now go away. Our competitors operating in Dadra and Daman had an exemption which was a disadvantage to us earlier.

- The current net capacity including all three plants stands at 2,37,000 tonnes per annum as of now. Post the expansion of Bright Polymer capacity the overall net capacity will increase to 3,32,000 tonnes per annum. Over the year your company in its various phases of growth has strengthened each pillar be it product offering, expansion in the end market, integration of manufacturing facilities to achieve economies of scale, change in product mix and overall profitability of the company. Your company is now fully geared up to capitalise on the growth in the industry. With increasing demand in the market, high volumes and better capacity utilisation, your company will improve profitability in the coming years.
- With regards to the financials of Q1 FY18. The company has reported revenues of Rs. 430 crores as compared to Rs. 351 crores in the corresponding quarter, signifying a growth of 22.5% on a Year on Year basis. EBITDA for the quarter stood at Rs. 36.34 crores as compared to Rs. 30.61 crores in Q1 FY17 which is a growth of 18.72% on a Year On Year basis. The Net Profit for Q1 FY18 stands at Rs. 14.33 crores as compared to Rs. 8.37 crores in Q1 FY17 signifying a growth of 71% on a Year On Year basis. After this quick brief now I look forward to questions from anyone who would like to ask. Thank you.
- **Moderator**
- Sure. Thank you very much. We will now begin with the question and answer session.
- We have the first question from the line of Mr. Umesh Patel from TCG Asset Management. Please go ahead.
- **Mr. Umesh Patel - TCG Asset Management**
- Yeah, good evening to everyone and congratulations for reporting good set of numbers.
- Sir, few questions. I wanted to know what is the current utilisation rate and post expansion, what is the revenue potential that we are seeing from DTY and FDY product segments?
- **Mr. Madhu Sudhan Bhageria - Chairman & Managing Director**

- We basically have two sections, one is chips and other is various yarns. So utilisation of the chips capacity is roughly 40% which we sell in the market because the margins there are not very good. But the yarn capacity we are utilising almost 100% capacity. In tonnage, it might vary because if we make lower deniers then the tonnage reduces but the machines utilisation is virtually 100%.
- **Mr. Umesh Patel - TCG Asset Management**
- So, post capacity expansion what would be the revenue potential from these two businesses?
- **Mr. Madhu Sudhan Bhageria - Chairman & Managing Director**
- The new expansion would give us a top-line of roughly more than Rs. 800 crores, that is net top-line.
- **Mr. Umesh Patel - TCG Asset Management**
- Yeah, so from 2,37,000 to reach at 3,32,000 it would add incremental revenue upto Rs. 800 crores, right?
- **Mr. Madhu Sudhan Bhageria - Chairman & Managing Director**
- Yeah.
- **Mr. Umesh Patel - TCG Asset Management**
- Okay. And you are now entering into Bright products. So, what is the margin expansion that you see in the next 2 years?
- **Mr. Madhu Sudhan Bhageria - Chairman & Managing Director**
- The margins will also improve because Bright normally gets 2-3% better margins than the Semi Dull which we produce at the moment.
- **Mr. Umesh Patel - TCG Asset Management**
- Okay. And you have envisaged a CAPEX of Rs. 340 crores so I wanted to know how you are planning to fund it and definitely there would be significant increase in debt level as well?
- **Mr. Madhu Sudhan Bhageria - Chairman & Managing Director**
- Yes, this would be funded with Rs. 280 crores of debt and Rs. 63.5 crores with internal accruals.
- **Mr. Umesh Patel - TCG Asset Management**
- Okay. Then in that case your debt currently stand at around Rs. 450 crores so it would increase to Rs. 700 crores, right. So this

would be the incremental debt that you are borrowing from the domestic market?

- **Mr. Madhu Sudhan Bhageria - Chairman & Managing Director**
- We are borrowing Rs.105 Crores from domestic and Rs. 175 Crores is overseas debt.
- **Mr. Umesh Patel - TCG Asset Management**
- And the rate of interest would be how much?
- **Mr. Madhu Sudhan Bhageria - Chairman & Managing Director**
- Overseas it is 1.1% over EURIBOR and domestic is around 12%.
- **Mr. Umesh Patel - TCG Asset Management**
- Okay. So your average cost of debt would be how much?
- **Mr. Madhu Sudhan Bhageria - Chairman & Managing Director**
- Overall maybe around 5%.
- **Mr. Umesh Patel - TCG Asset Management**
- Overall on Rs. 700 crores blended average cost?
- **Mr. Madhu Sudhan Bhageria - Chairman & Managing Director**
- Blended it might be around 9% or 8% because the other debts are mostly Indian Rupee debts, only there is a Rs. 65 crores foreign debt.
- **Mr. Umesh Patel - TCG Asset Management**
- Out of that Rs. 450 crores, Rs. 65 crores is of foreign right?
- **Mr. Madhu Sudhan Bhageria - Chairman & Managing Director**
- Yes.
- **Mr. Umesh Patel - TCG Asset Management**
- Another Rs. 175 crores would be added.
- **Mr. Madhu Sudhan Bhageria - Chairman & Managing Director**
- Right.
- **Mr. Umesh Patel - TCG Asset Management**
- Okay. I was looking at your income statement, you got some interest subsidy in the first quarter, right?

- **Mr. Madhu Sudhan Bhageria - Chairman & Managing Director**
- Yeah, we were eligible for that but we were not allowed to take it till the time we get our first instalment. So we got our first instalment only in this quarter. After that we have to provide for the subsidy.
- **Mr. Umesh Patel - TCG Asset Management**
- Yeah. So, considering the incremental debt in your Balance Sheet at the end of FY18. What would be your interest outgo? Also after taking into consideration the interest subsidy that you will get?
- **Mr. Madhu Sudhan Bhageria - Chairman & Managing Director**
- We have not considered, the subsidy portion is roughly Rs. 3.5 crores per year, it will keep on reducing every year as we pay the debt.
- **Mr. Umesh Patel - TCG Asset Management**
- So, you are roughly on Rs. 700 crores, it would be around Rs. 65 crores considering average cost of debt of 9%?
- **Mr. Madhu Sudhan Bhageria - Chairman & Managing Director**
- Yeah, right.
- **Mr. Umesh Patel - TCG Asset Management**
- Right. Okay. And the last thing I wanted to understand sir, what is the price movement of PTA and MEG raw materials in the last one quarter on YOY basis? And what would be the impact due to the recent appreciation of Rupee on your income statement?
- **Mr. Madhu Sudhan Bhageria - Chairman & Managing Director**
- More or less, the raw materials have been quite stable. Of course, there is some movement of 1% or 2%. And the raw material prices get revised every fortnight so two times in a month. You can easily pass on the benefit to the customers and if the price goes up you can increase the prices also because there is a good demand in the market for the products. So, I don't see any sharp changes in the raw material because crude is more or less stable, it is hovering between 45 to 50.
- **Mr. Umesh Patel - TCG Asset Management**
- If we assume that the crude oil price will be over 60 per barrel in FY19. Then in that case?
- **Mr. Madhu Sudhan Bhageria - Chairman & Managing Director**

- Then in that case the raw material will move up. Our margins are more or less not related to the price of the raw material, they are more or less fixed by per kg of the product or as a total number.
- **Mr. Umesh Patel - TCG Asset Management**
- Yeah, but if I look at your historical financial performance, your consumption of raw materials as a percentage of sales was around 80% in FY11, FY12, FY13, & FY14 where you have been able to generate EBITDA margin of around 3-4%. I mean there was no value-added products contribution.
- **Mr. Madhu Sudhan Bhageria - Chairman & Managing Director**
- Yeah. Not only value-added products but the market was also not good, that time the market was in oversupply situation.
- **Mr. Umesh Patel - TCG Asset Management**
- Correct.
- **Mr. Madhu Sudhan Bhageria - Chairman & Managing Director**
- So, now it is not in oversupply situation and the world market has also changed. Previously China was very competitive in the world market, now India is equally competitive or more competitive than China in the world market. So, over the years things change it won't remain the same.
- **Mr. Umesh Patel - TCG Asset Management**
- Yeah. And considering GST, where do you see your company in the next 2 years? What you were working earlier and what would be the GST structure rate for your company or overall textile industry?
- **Mr. Madhu Sudhan Bhageria - Chairman & Managing Director**
- Right now GST structure is 18% for our products. Previously it used to be 12.5% Excise duty and 5% VAT in Gujarat. In rest of the places we used to pay CST and then the fabric was exempted so you can say 14.5%.
- **Mr. Umesh Patel - TCG Asset Management**
- Correct. So, there is an incremental cost of around....?
- **Mr. Madhu Sudhan Bhageria - Chairman & Managing Director**
- Yeah but it is in consideration of the government.
- **Mr. Umesh Patel - TCG Asset Management**

- Yeah, incremental plus your transportation cost would be around 2% for which you will not get input credit, right. So, that would be completely passed onto the end consumer?
- **Mr. Madhu Sudhan Bhageria - Chairman & Managing Director**
- Yeah, it easily gets passed on to the consumers because the next product which the consumer can use is almost 50-100% costlier than our products. So all these slight changes in costing of our products doesn't affect the offtake because the customer has no choice which is nearer to our product that he can switched to that product because of the small changes. But also I think the government is considering reduction in the manmade fibres GST rate.
- **Mr. Umesh Patel - TCG Asset Management**
- Yeah, but as of now that is....
- **Mr. Madhu Sudhan Bhageria - Chairman & Managing Director**
- But it doesn't affect at all because yarn overall in the whole segment of textiles, one that textile converts into a garment is not a very big component.
- **Mr. Umesh Patel - TCG Asset Management**
- And last question was related to demand. Recently, Gujarat was heavily flooded which you know is the major textile market for India as of now. Definitely there was some disruption in....?
- **Mr. Madhu Sudhan Bhageria - Chairman & Managing Director**
- A very small area of Gujarat have been flooded, wherever the textile production is there, it is mainly in Surat, there were no floods in Surat.
- **Mr. Umesh Patel - TCG Asset Management**
- So, there was no impact in terms of demand or anything?
- **Mr. Madhu Sudhan Bhageria - Chairman & Managing Director**
- No, not because of this. Surat produces but sells all over India not only in Gujarat.
- **Mr. Umesh Patel - TCG Asset Management**
- Okay. And last question was where you see your sales growth as well as your EBITDA growth in the next 2 years? What is your vision after taking into consideration the current ongoing expansion? What would be the next step?
- **Mr. Madhu Sudhan Bhageria - Chairman & Managing Director**

- After this expansion, we plan to go into some fabrics also. So while this expansion is on stream and the production starts then we plan to add some fabric and processing units so that we can process our yarns because there we can add more value to our products and create more value also.
- **Mr. Umesh Patel - TCG Asset Management**
- So, is it fair to assume that we will be able to clock around 10% EBITDA margin in FY19?
- **Mr. Madhu Sudhan Bhageria - Chairman & Managing Director**
- FY `19 with the current rate of raw materials, we projected around more than 12% EBITDA margins.
- **Mr. Umesh Patel - TCG Asset Management**
- But in your first quarter your EBITDA margin was something around 8.4%-8.5%. It means that in the remaining 9 months you have to clock around you know...?
- **Mr. Madhu Sudhan Bhageria - Chairman & Managing Director**
- No, no, of course I am talking about FY19 not FY18.
- **Mr. Umesh Patel - TCG Asset Management**
- Yeah. Any debt repayment scheduled?
- **Mr. Madhu Sudhan Bhageria - Chairman & Managing Director**
- Yes, debt repayments are there regularly. This year there is a debt repayment of approximately Rs. 55 crores.
- **Mr. Umesh Patel - TCG Asset Management**
- Rs. 55 crores, okay. Thank you.
- **Moderator**
- The next question is from the line of Ms. Pooja Beriwal from Gold Coin Capital. Please go ahead.
- **Ms. Pooja Beriwal - Gold Coin Capital**
- I have few questions. As I see in your presentation, the DTY and FDY contributes around 49% of the revenue mix as of FY17. But with the Bright Polymer coming into the play, I want to know how would your revenue mix change over the next 2-3 years? And considering that you want to enter into fabric segment as you told right now. So if you could

just throw some light on the revenue mix, how will it change over the time.

- **Mr. Madhu Sudhan Bhageria - Chairman & Managing Director**
- Fabric, we have not planned as yet, it's a thought process which we had.
- Revenue mix, I think in the presentation we have given our future product mix.
- **Ms. Pooja Beriwal - Gold Coin Capital**
- Sir, right now it is 50%, right?
- **Mr. Madhu Sudhan Bhageria - Chairman & Managing Director**
- If you have the presentation and if you see Page 16, there we have given the total percentages what will have in future of all 3,32,000 tonnes. Post expansion also the percentages are given.
- **Ms. Pooja Beriwal - Gold Coin Capital**
- Okay fine I will look into that. And also I want to know like the incremental margins as you told from DTY to FDY is 2-3%, right?
- **Mr. Madhu Sudhan Bhageria - Chairman & Managing Director**
- No, no, what I said is Semi Dull products and Bright products, Bright have 2-3% better margins than Semi Dull products. Whether it is POY, DTY or FDY. All the three have better margins when you make Bright.
- **Ms. Pooja Beriwal - Gold Coin Capital**
- And my next question is what is the demand scenario of Bright Polymer?
- **Mr. Madhu Sudhan Bhageria - Chairman & Managing Director**
- Bright is doing good, Bright is basically yarns which gives sparkling and shining effect in the fabrics. A lot of upholstery materials, curtain cloths and even in the fabrics for ladies & children wear. This has been in demand in a big way now.
- **Ms. Pooja Beriwal - Gold Coin Capital**
- Like who are the major competitors here?
- **Mr. Madhu Sudhan Bhageria - Chairman & Managing Director**
- In Bright I think the major is Reliance, there is Welspun, Bhilosa and Shree Durga. There are 3-4 major competitors.

- **Ms. Pooja Beriwal - Gold Coin Capital**
- In terms of market share, can you throw some light, do we have a substantial market share in any of our product segment?
- **Mr. Madhu Sudhan Bhageria - Chairman & Managing Director**
- Overall in PFY our market share is roughly 7%.
- **Ms. Pooja Beriwal - Gold Coin Capital**
- Okay. Great. And last question do we face any competition from Chinese textiles or something like that?
- **Mr. Madhu Sudhan Bhageria - Chairman & Managing Director**
- There is no Chinese imports into India because we are able to export at a better price than the realisation from the domestic market and compete with the Chinese. So, there is no way that they can sell it in India.
- **Ms. Pooja Beriwal - Gold Coin Capital**
- What is the incremental margin difference between the domestic market and the international market?
- **Mr. Madhu Sudhan Bhageria - Chairman & Managing Director**
- 1-2% only, it is not very huge.
- **Ms. Pooja Beriwal - Gold Coin Capital**
- 1-2%. Okay, great. Thanks a lot and all the best.
- **Moderator**
- The next question is from the line of Mr. Kalpesh Parekh from Prabhudas Lilladher. Please go ahead.
- **Mr. Kalpesh Parekh – Prabhudas Lilladher**
- Yeah thank you. Sir, basically just wanted to understand from this your Brownfield expansion front. What is the status, when we should expect it to come upstream?
- **Mr. Madhu Sudhan Bhageria - Chairman & Managing Director**
- We should be having the first product by end of November and the total expansion should be completed by end of January. Although we are not declaring these dates, we are saying March only because that is what we have given to our banks. In all likelihood, we should be able to complete our expansion by January.

- **Mr. Kalpesh Parekh – Prabhudas Lilladher**
- So, can we expect some numbers to come in Q4?
- **Mr. Madhu Sudhan Bhageria - Chairman & Managing Director**
- Yeah, we can expect some numbers in Q4. Definitely.
- **Mr. Kalpesh Parekh – Prabhudas Lilladher**
- Okay. And second question was on the GST front, we saw a good sales bump up in this quarter. So was there any pre GST push up which happened?
- **Mr. Madhu Sudhan Bhageria - Chairman & Managing Director**
- No, rather June end was a little in slump because of GST, little slowness in the demand. In July also because of the strikes the demand was a little low.
- **Mr. Kalpesh Parekh – Prabhudas Lilladher**
- Okay. And you mentioned about the debt front that you will be repaying debt to the extent of Rs. 55 crores.
- **Mr. Madhu Sudhan Bhageria - Chairman & Managing Director**
- Yeah.
- **Mr. Kalpesh Parekh – Prabhudas Lilladher**
- So will that get reflected in Q2 and Q3 because I think number of Rs. 60-65 crores which got calculated, I think that would be coming in probably next year, right, the expanded debt. That Rs. 60 crores will come in next year, right?
- **Mr. Madhu Sudhan Bhageria - Chairman & Managing Director**
- No, this year only all the loans will materialise because the whole expansion will happen this year. So the loan will get materialised this year only.
- **Mr. Kalpesh Parekh – Prabhudas Lilladher**
- But there will be repayment also, right?
- **Mr. Madhu Sudhan Bhageria - Chairman & Managing Director**
- There will be a repayment so we will be taking a debt of Rs. 280 crores and repaying Rs. 55 crores, the net will be around Rs. 225 crores.

- **Mr. Kalpesh Parekh – Prabhudas Lilladher**
- okay. I will just be in the queue if there is anything.
- **Moderator**
- The next question is from the line of Ms. Ruhi Seth from Kanya Investment. Please go ahead.
- **Ms. Ruhi Seth - Kanya Investment**
- Good evening sir, thank you for the opportunity. I have a couple of questions. First, I would like to understand that what is the final product segment that we cater to? Are we into performance fibres or technical textiles or would it be more of apparel?
- **Mr. Madhu Sudhan Bhageria - Chairman & Managing Director**
- No, no, our product is mainly used for making fabrics whether it is for garments, dress materials or upholstery. That is the main usage of our products.
- **Ms. Ruhi Seth - Kanya Investment**
- Okay. So, when we are talking about the next stage of growth which is the complete product range. So therein will the market segment expand for us?
- **Mr. Madhu Sudhan Bhageria - Chairman & Managing Director**
- No, the market segment remains the same, right now we are not able to cater to the full demand of this market segment. We are not able to give them Bright Yarns which they want. So we will be able to cater to that also.
- **Ms. Ruhi Seth - Kanya Investment**
- Sir, in terms of competition exactly since you are talking about Bright Polymer who would be there in the market today?
- **Mr. Madhu Sudhan Bhageria - Chairman & Managing Director**
- Reliance is there then Welspun, Bhilosa and Shree Durga. These are the big four main producers of Bright, otherwise there are 6-7 players also who produce but these are the major producers.
- **Ms. Ruhi Seth - Kanya Investment**
- And in terms of usage Bright would be used in the similar kind of product as what our earlier POY products were used?
- **Mr. Madhu Sudhan Bhageria - Chairman & Managing Director**

- POY is not directly used for making garments, POY has to be further processed that is texturising has to be done then it goes for garmenting. Texturising in FDY directly goes for making garments or home textiles.
- **Ms. Ruhi Seth - Kanya Investment**
- Okay. But in terms of Bright you will not require those additional....?
- **Mr. Madhu Sudhan Bhageria - Chairman & Managing Director**
- No, Bright is just a lustre, it is just a different kind of DTY or FDY. Semi Dull is like a white opaque colour and Bright is transparent which gives shine, that's the difference. When you make a fabric you would require both kind of yarns.
- **Ms. Ruhi Seth - Kanya Investment**
- Both kind of yarns, okay, understood. Sir, another thing is you mentioned Reliance also does Bright, right?
- **Mr. Madhu Sudhan Bhageria - Chairman & Managing Director**
- Yeah, Reliance does everything.
- **Ms. Ruhi Seth - Kanya Investment**
- And Reliance also supplies raw material to us?
- **Mr. Madhu Sudhan Bhageria - Chairman & Managing Director**
- Yeah, it does. Raw material pricing is based on international pricing formula.
- **Ms. Ruhi Seth - Kanya Investment**
- But I think there is another Reliance facility coming closeby to our manufacturing plants. So, will we have any cost savings in terms of transportation?
- **Mr. Madhu Sudhan Bhageria - Chairman & Managing Director**
- Yeah, there are two major raw materials, one is PTA which is already in Dahej manufactured by Reliance. The second one MEG right now we are importing that they are bringing a new plant in Jamnagar but their selling depot would be located in Dahej. From Jamnagar they will bring by ships to Dahej and from there they will distribute. So, that will result in some cost savings when we buy it from them.
- **Ms. Ruhi Seth - Kanya Investment**

- Any indication that you can give on what quantum of cost savings can we look at?
- **Mr. Madhu Sudhan Bhageria - Chairman & Managing Director**
- Very difficult, it will not be very significant, maybe you can say around Rs. 30-40 lacs per month.
- **Ms. Ruhi Seth - Kanya Investment**
- Sir, just one another question In terms of the textiles space many of the players have been talking about labour issues in the demonetisation.
- **Mr. Madhu Sudhan Bhageria - Chairman & Managing Director**
- There are labour issues but that primarily happens in April to June quarter when the labour, it's a migrated labour so it moves away to UP, Bihar and Orissa. These are the three places where they come from so that time we have some issues. So, our production of texturising has suffered in this quarter. But overall the capacity doesn't, we were making POY and then we used to sell it as POY and not able to texturise fully. So, for texturising utilisation was a little bit lower in this quarter.
- **Ms. Ruhi Seth - Kanya Investment**
- I think texturising was low....
- **Mr. Madhu Sudhan Bhageria - Chairman & Managing Director**
- Yeah, texturising is more labour intensive.
- **Ms. Ruhi Seth - Kanya Investment**
- So, therein we took some hit otherwise you were able to produce?
- **Mr. Madhu Sudhan Bhageria - Chairman & Managing Director**
- Yeah, yeah, otherwise we were able to run full operation. Texturising, also this was our first year so we were not able to handle that. Maybe from next we will be in a better position.
- **Ms. Ruhi Seth - Kanya Investment**
- Okay, so now sir for the second quarter?
- **Mr. Madhu Sudhan Bhageria - Chairman & Managing Director**
- Now, it is in full swing, there is no shortage of labour.
- **Ms. Ruhi Seth - Kanya Investment**

- There are no issues, there is no shortage of labour.
- **Mr. Madhu Sudhan Bhageria - Chairman & Managing Director**
- No.
- **Ms. Ruhi Seth - Kanya Investment**
- Okay. Thank you so much. Thank you for the time.
- **Moderator**
- Next we have a follow-up question from the line of Mr. Kalpesh Parekh from Prabhudas Lilladher. Please go ahead.
- **Mr. Kalpesh Parekh – Prabhudas Lilladher**
- Sir, you mentioned on this fabric business like you are thinking in that direction. So, any plans on this front like forward integration which location?
- **Mr. Madhu Sudhan Bhageria - Chairman & Managing Director**
- Location will be Dahej only, plans is that we would be doing a very small CAPEX of around Rs. 40 crores to test the business, markets and everything. Once we are able to understand this business more then we would expand in a big way.
- **Mr. Kalpesh Parekh – Prabhudas Lilladher**
- So, in case this is happening then probably it will happen once your Bright is on stream?
- **Mr. Madhu Sudhan Bhageria - Chairman & Managing Director**
- Yeah, so my Bright is on stream by end of this year so maybe last quarter we will start planning what to put and all those things.
- **Mr. Kalpesh Parekh – Prabhudas Lilladher**
- But how big is the opportunity according to you, I know it's too early but?
- **Mr. Madhu Sudhan Bhageria - Chairman & Managing Director**
- I think it's a big opportunity to have a composite unit making yarn and fabric and doing your own processing. So you can create lot of good variety of products by doing something in the yarn otherwise it becomes very difficult to promote. If you have your own fabric and processing you can do lot of new things and create more value. Because if you create a different kind of a fabric you can get a better

price. Nobody is bothered what is your costing, yarn and all everybody knows the costing. So, it is difficult to get a very good price.

- **Mr. Kalpesh Parekh – Prabhudas Lilladher**
- Okay. Will this be a very margin accretive?
- **Mr. Madhu Sudhan Bhageria - Chairman & Managing Director**
- I think so, we would like to be in it and we would enter into where the margins are good only in fabrics, not just run of the mill products.
- **Mr. Kalpesh Parekh – Prabhudas Lilladher**
- Okay. Fair enough. I think that's it from my side. Thank you.
- **Moderator**
- Thank you.
- The next question is from the line of Mr. Arun Gopalln from Systematix Shares. Please go ahead.
- **Mr. Arun Gopalln - Systematix Shares**
- Nice to see good numbers from your end. I joined a little bit late so I think I missed quite a lot of the first part of your discussion. So, the question that I have is on the margins front. Post the expansion getting completed I see that the numbers in your presentation as far as the expansion is concerned that's already there. So, what do you think will be the impact on margins? What would be your margin profile for FY18 and FY19 post this expansion?
- **Mr. Madhu Sudhan Bhageria - Chairman & Managing Director**
- FY18, we should be close to 9% EBITDA...
- **Mr. Arun Gopalln - Systematix Shares**
- Okay. You have done 8.6% in FY17 so far.
- **Mr. Madhu Sudhan Bhageria - Chairman & Managing Director**
- Yeah so we should be improving upon that. But FY19 we definitely feel we should be able to clock 12% because this new expansion will give us a good boost because the investment is less and revenues should be quite good.
- **Mr. Arun Gopalln - Systematix Shares**
- So, as far as contribution to margins is concerned, which segment do you think will be the biggest?

- **Mr. Madhu Sudhan Bhageria - Chairman & Managing Director**
- It keeps on changing, previously FDY was giving very good margins, now FDY margins have reduced but the POY and Textured margins have improved. I think POY and Textured margins should remain healthy and FDY margins can improve from here, I don't think they can fall any further.
- **Mr. Arun Gopalln - Systematix Shares**
- And given the current price of crude how much of sensitivity to crude price will the new mix have? Would it be more sensitive or would it be less sensitive? What do you think?
- **Mr. Madhu Sudhan Bhageria - Chairman & Managing Director**
- It is not very sensitive to the crude pricing, sensitivity is very small, maybe for 15 days or 1 month it will last, that's all. Otherwise we are able to pass on whatever increase or decrease, it doesn't last too long.
- **Mr. Arun Gopalln - Systematix Shares**
- Okay. So, has this always been the case that even in the past you have been able to pass on?
- **Mr. Madhu Sudhan Bhageria - Chairman & Managing Director**
- Yeah, always because there is no near competitor for our product which can step in if the prices go up or low. Any other product is more than 50% costlier than our product.
- **Mr. Arun Gopalln - Systematix Shares**
- Okay. So are you among the lowest cost producers?
- **Mr. Madhu Sudhan Bhageria - Chairman & Managing Director**
- Yeah, I would not say lowest but among the lowest.
- **Mr. Arun Gopalln - Systematix Shares**
- Okay. So you are envisaging about 12% margins?
- **Mr. Madhu Sudhan Bhageria - Chairman & Managing Director**
- Yeah, once our expansion is completed, I envisage around 12% EBITDA in the next year where we use full facility.
- **Mr. Arun Gopalln - Systematix Shares**
- Okay, thank you. I will come back for any questions. Thank you.

- **Moderator**
- We have the next question is from the line of Mr. Manan Mehta who is an individual investor. Please go ahead.
- **Mr. Manan Mehta - Individual Investor**
- Thank you sir for the opportunity. Sir, I have two questions, the first question is regarding 20% of my business comes from exports. So, with the dollar strengthening how will it affect my overall business?
- **Mr. Madhu Sudhan Bhageria - Chairman & Managing Director**
- We are also importing a lot of materials, we are not at a disadvantage at any given time. Of course our pricing would change, if dollar strengthened now we will start offering slightly expensive in dollar terms. But also the raw material will become cheaper, it affects only the value addition. The raw material prices is packed to the dollar price
- **Mr. Manan Mehta - Individual Investor**
- Okay. So, our company has a natural hedge?
- **Mr. Madhu Sudhan Bhageria - Chairman & Managing Director**
- Yeah.
- **Mr. Manan Mehta - Individual Investor**
- And sir one more thing, the new expansion that has started sir the date of production you had mentioned was around Feb 2018.
- **Mr. Madhu Sudhan Bhageria - Chairman & Managing Director**
- Right.
- **Mr. Manan Mehta - Individual Investor**
- Sir, are you on track?
- **Mr. Madhu Sudhan Bhageria - Chairman & Managing Director**
- Yeah, we are ahead of schedule.
- **Mr. Manan Mehta - Individual Investor**
- Okay sir. Sir, just one more question. Post expansion what would be my debt to equity? So if you could give me some kind of guidance.
- **Mr. Madhu Sudhan Bhageria - Chairman & Managing Director**
- I think post expansion our debt to equity would be around 1.7 or something.

- **Mr. Manan Mehta - Individual Investor**
- Okay sir. Thank you sir. Thank you.
- **Moderator**
- The next question is from the line of Mr. Bharat Subramanian from Sundaram Mutual Fund. Please go ahead.
- **Mr. Bharat Subramanian - Sundaram Mutual Fund**
- Good evening sir. Thanks for the time. Sir, that's a very basic question, in terms of our yarn that we sell where would be our target customers in terms of geography? Where does the weaving happen in terms of the current mix of customers? Is it around Maharashtra or is it also to parts outside the western region?
- **Mr. Madhu Sudhan Bhageria - Chairman & Managing Director**
- Pre GST we were targeting customers only in Gujarat and exports mainly. So maybe you can say almost 80-90% of our sales were within Gujarat and exports only 10% was other regions because of CST. Now since that has gone we are increasing our customer base but still major area would remain Gujarat only because there is a lot of consumption in Gujarat.
- **Mr. Bharat Subramanian - Sundaram Mutual Fund**
- What I was trying to understand in terms of integrated players on the fabric side versus weavers who do turn up on standalone basis, around job work basis. Is there a significant difference in the whole business?
- **Mr. Madhu Sudhan Bhageria - Chairman & Managing Director**
- In the present GST scenario there is a lot of advantage being integrated. I don't know if it will remain like this or it will change so I am not putting expansion because of that. But of course that's an added advantage because GST on the fabric is only 5% compared to 18% on the yarn.
- So, if I do integrated I pay only 5% so I save a lot on GST which is approximately Rs. 10-12 a kg. You save a lot of money on transportation, selling and other various things if you do it in-house. And you can plan better for inventories and everything if you are making your own yarn. But we will be definitely using other yarns also when we make fabric. We will not be making only polyester fabric.
- **Mr. Bharat Subramanian - Sundaram Mutual Fund**
- Okay. So from industry body level is there any appeals which are happening currently to kind of correct the structure?

- **Mr. Madhu Sudhan Bhageria - Chairman & Managing Director**
- Yeah, there is a lot of persuasion to the government happening and there were strikes also. So, maybe in the near future the rate would come to 12% that is the general expectation.
- **Mr. Bharat Subramanian - Sundaram Mutual Fund**
- So, from our business decision perspective that wouldn't solely hinge on this particular state of affairs which you have currently?
- **Mr. Madhu Sudhan Bhageria - Chairman & Managing Director**
- Yeah.
- **Mr. Bharat Subramanian - Sundaram Mutual Fund**
- In general what kind of CAPEX would be there if at all we have to setup a reasonably sized fabric facility?
- **Mr. Madhu Sudhan Bhageria - Chairman & Managing Director**
- Right now we will just set up a very small facility. I mean in fabric that is not considered too small also, we have a target of around Rs. 40-50 crores max investment. Because we have to learn that business so I don't want to put more money in the first phase. And if the learning experience is good then we will expand it. I think Rs. 400-500 crores becomes a very big sized unit in fabrics. CAPEX in fabrics is lower compared to producing yarns.
- **Mr. Bharat Subramanian - Sundaram Mutual Fund**
- Okay. That's all I have. Thank you.
- **Moderator**
- Thank you.
- The next question is from the line of Mr. Suhrid Deroh from Mentor Capital. Please go ahead.
- **Mr. Suhrid Deroh - Mentor Capital**
- Hi sir. On DTY because the export market is really where the potential lies. Could you talk about how the economics for a Chinese manufacturer stacks up as compared to an Indian manufacturer?
- **Mr. Madhu Sudhan Bhageria - Chairman & Managing Director**
- Chinese at the moment, I see two basic disadvantage compared to Indians. One is that the freights from China to various importing countries is little higher than the Indian market.

- And second is the labour cost. Their labour cost is more than 3 times higher than the Indian wages as of now. And also availability of labour is getting tighter in China day by day. These are the main reasons why India is coming up better.
- **Mr. Suhrid Deroh - Mentor Capital**
- Our labour cost is only about 2-3% of sales. So could that really be moving on needle so much to make Indians more competitive?
- **Mr. Madhu Sudhan Bhageria - Chairman & Managing Director**
- I said both the things, our business it's a commodity business, 1% makes the difference. People would buy from China or India even if there is a difference of 1%.
- **Mr. Suhrid Deroh - Mentor Capital**
- Right. Okay. So, the combination of the labour cost as well as the freight cost?
- **Mr. Madhu Sudhan Bhageria - Chairman & Managing Director**
- If our is 2% and if theirs is 6% then they are losing 4%.
- **Mr. Suhrid Deroh - Mentor Capital**
- Right. And is there any gain in productivity from new types of equipment in Texturised Yarn which might reduce labour cost going forward?
- **Mr. Madhu Sudhan Bhageria - Chairman & Managing Director**
- That keeps on happening everytime there is improvement in the productivity of machines when new machines come in.
- **Mr. Suhrid Deroh - Mentor Capital**
- Are you hearing of a lot of capacity coming online in China of that nature which might cause disruption?
- **Mr. Madhu Sudhan Bhageria - Chairman & Managing Director**
- No, I don't hear so much of capacity coming in.
- **Mr. Suhrid Deroh - Mentor Capital**
- Okay. All right. That's it. Thank you.
- **Moderator**
- Thank you.

- We have the next question from the line of Mr. Mohit Bansal from Ajinkya MPL. Please go ahead.
- **Mr. Mohit Bansal - Ajinkya MPL**
- Sir, my question is on the expanded CAPEX. So once we have completed the CAPEX the set of clients would be the same that we are already selling to, right for the Bright as well?
- **Mr. Madhu Sudhan Bhageria - Chairman & Managing Director**
- Mostly, not 100% but mostly they will be. Majorly they will be same clients.
- **Mr. Mohit Bansal - Ajinkya MPL**
- Okay. So, there is no risk of like we are not able to sell in the market, right?
- **Mr. Madhu Sudhan Bhageria - Chairman & Managing Director**
- No, I don't think so.
- **Mr. Mohit Bansal - Ajinkya MPL**
- And even on the exports also there will be almost the same set of clients?
- **Mr. Madhu Sudhan Bhageria - Chairman & Managing Director**
- Yeah, almost.
- **Mr. Mohit Bansal - Ajinkya MPL**
- Okay. Great. So you are guiding 12% margins on a turnover of about Rs. 2,200 crores for FY19, right?
- **Mr. Madhu Sudhan Bhageria - Chairman & Managing Director**
- More of Rs. 2,400-2,500 crores. last time we clocked Rs. 1550 crores, this year we expect around Rs. 1700 crores from the existing operations. So, it should be more close to Rs. 2500 crores.
- **Mr. Mohit Bansal - Ajinkya MPL**
- So, we will clock EBITDA of closer to Rs. 350 crores next year?
- **Mr. Madhu Sudhan Bhageria - Chairman & Managing Director**
- Yeah. We are saying around more than Rs. 300 crores not Rs. 350 crores, being little conservative.
- **Mr. Mohit Bansal - Ajinkya MPL**

- That is 12% on Rs. 2500 crores, there is an upside of about Rs. 30 crores....
- **Mr. Madhu Sudhan Bhageria - Chairman & Managing Director**
- There is an upside but I don't want to say and not perform. It is better to say less and perform better.
- There is an upside available because of the improved margins in the market, definitely Rs. 300 crores can convert into Rs. 350 crores easily.
- **Mr. Mohit Bansal - Ajinkya MPL**
- Yeah. And there is an upside of you know not on the margins but upside that we can get on our subsidies and state benefits?
- **Mr. Madhu Sudhan Bhageria - Chairman & Managing Director**
- We started getting a Centre subsidy which is around Rs. 3.5 crores per year For State subsidy, I presume in next 3 to 6 months we should be on line so that should also creep in.
- **Mr. Mohit Bansal - Ajinkya MPL**
- So there is an upside of Rs. 21 crores there per year, right?
- **Mr. Madhu Sudhan Bhageria - Chairman & Managing Director**
- Yeah but the EBITDA would remain the same. The subsidies doesn't change the EBITDA, it will change your net profits. Interest will go....
- **Mr. Mohit Bansal - Ajinkya MPL**
- No, I am just saying the total flow available for us closer to Rs. 360-370 crores. So my question is sir, what will be our plan because we will have a higher debt as well?
- **Mr. Madhu Sudhan Bhageria - Chairman & Managing Director**
- First, next year we want to consolidate and reduce debt substantially and then plan for the next expansions.
- **Mr. Mohit Bansal - Ajinkya MPL**
- Correct. And the next expansion that you are planning to get into fabrics will be first on a test?
- **Mr. Madhu Sudhan Bhageria - Chairman & Managing Director**
- Fabric is very small I have taken Rs. 40-50 crores and that also we will take a loan for that even though we might not need it because there are TUFF benefits in that.

- So, we would not like to not take that loan so we would rather pay other loans and take this loan.
- **Mr. Mohit Bansal - Ajinkya MPL**
- Great. So the plan will be to substantially start reducing our debt?
- **Mr. Madhu Sudhan Bhageria - Chairman & Managing Director**
- Yeah, definitely.
- **Mr. Mohit Bansal - Ajinkya MPL**
- Okay. All right sir. That's it from my side. Thanks a lot.
- **Moderator**
- Thank you.
- Next we have a follow-up question from the line of Mr. Suhrid Deroh from Mentor Capital. Please go ahead.
- **Mr. Suhrid Deroh - Mentor Capital**
- Sir, you mentioned that FDY prices are down a little bit. What were their peak and what are they now?
- **Mr. Madhu Sudhan Bhageria - Chairman & Managing Director**
- I can tell you about the margins. We were having a margin of Rs. 20-21 a kg on an average, now they are around Rs. 13-15.
- **Mr. Suhrid Deroh - Mentor Capital**
- Okay. And you don't expect this to reduce further from here?
- **Mr. Madhu Sudhan Bhageria - Chairman & Managing Director**
- I don't because now these prices India is getting internationally competitive. Maybe Re. 1 here and there, that's all because after you become internationally competitive you can export and then you don't need to reduce further prices.
- **Mr. Suhrid Deroh - Mentor Capital**
- Right. And then you said that the margins were down from Rs. 18-20 to Rs. 13-15. When you said these margins would be your selling price per kg minus....?
- **Mr. Madhu Sudhan Bhageria - Chairman & Managing Director**
- Minus my operating cost, I am talking about EBITDA margins.

- **Mr. Suhrid Deroh - Mentor Capital**
- So operating cost, this is delta minus operating cost?
- **Mr. Madhu Sudhan Bhageria - Chairman & Managing Director**
- Delta remains the same because the production cost has not changed.
- **Mr. Suhrid Deroh - Mentor Capital**
- So, delta would have reduced and delta minus....?
- **Mr. Madhu Sudhan Bhageria - Chairman & Managing Director**
- Delta has reduced, I mean you add to this to the operating which is like around Rs. 16-17 operating cost to this so that will give you the total.
- **Mr. Suhrid Deroh - Mentor Capital**
- So, the total delta today would be 15 plus 16 i.e Rs. 31?
- **Mr. Madhu Sudhan Bhageria - Chairman & Managing Director**
- Right.
- **Mr. Suhrid Deroh - Mentor Capital**
- Which is earlier 18 plus 16...
- **Mr. Madhu Sudhan Bhageria - Chairman & Managing Director**
- Earlier it was around Rs. 40.
- **Mr. Suhrid Deroh - Mentor Capital**
- Okay. So 20 plus 15, Rs. 35-37. Okay fine, thank you.
- **Moderator**
- Thank you.
- The next question is from the line of Mr. Umesh Patel from TCG Asset Management. Please go ahead.
- **Mr. Umesh Patel - TCG Asset Management**
- Sir, I was looking at your effective tax which around 35% in the first quarter as a percentage of PBT. And historically, we have paid around 26-27%. So what would be your effective tax for this year and next year?
- **Mr. Madhu Sudhan Bhageria - Chairman & Managing Director**

- Last year there was investment allowance available to us, the government had an investment allowance scheme till last year. So whatever investment we had made that qualified for 15% extra depreciation which would not come this year. So, overall what we show you that is MAT plus deferred tax. It will always remain 34.5% roughly what is the taxation rate for the corporate.
- **Mr. Umesh Patel - TCG Asset Management**
- Yeah. So, from this year onwards no benefit....
- **Mr. Madhu Sudhan Bhageria - Chairman & Managing Director**
- Yeah, this year there is no depreciation allowance, investment allowance available...
- **Mr. Umesh Patel - TCG Asset Management**
- Yeah, so it would be around 34% which is the normal rate.
- **Mr. Madhu Sudhan Bhageria - Chairman & Managing Director**
- Although the outgo will be MAT only but in the results it will be shown as full loan, balance is deferred tax.
- **Mr. Umesh Patel - TCG Asset Management**
- Okay. And you mentioned that you are also targeting, I mean apart from this ongoing expansion, the next expansion will take place once we deleverage the Balance Sheet, So, just wanted to know out of this Rs. 700 crores, Rs. 55 crores is already targeting to be repaid in this year. Then after considering the post expansion EBITDA of around Rs. 300 crores that you are anticipating, definitely the free cash flow would be significant?
- **Mr. Madhu Sudhan Bhageria - Chairman & Managing Director**
- Yeah, next year we will have a significantly free cash flow so we will repay, reduce our debt.
- **Mr. Umesh Patel - TCG Asset Management**
- By how much percentage or what would be the prepayment?
- **Mr. Madhu Sudhan Bhageria - Chairman & Managing Director**
- It is difficult to say now, maybe by atleast Rs. 100 crores we will reduce our debt, that is the minimum, it would be more.
- The free cash flows will be in the vicinity of around Rs. 180-190 crores and it will be more than Rs. 100 crores that we will utilise to repay the loans.

- **Mr. Umesh Patel - TCG Asset Management**
- Correct. Thank you sir.
- **Moderator**
- Thank you very much.
- That was the last question. As there are no further questions I would like to hand the conference back to the management for any closing comments.
- **Mr. Madhu Sudhan Bhageria - Chairman & Managing Director**
- Thank you everybody for joining me.
- **Mr. Kalpesh Parekh – Prabhudas Lilladher**
- Sir, thank you for giving us this opportunity to host a call.
- **Mr. Madhu Sudhan Bhageria - Chairman & Managing Director**
- Thank you.
- **Moderator**
- Thank you very much. On behalf of Prabhudas Lilladher India Private Limited that concludes this conference. Thank you for joining us ladies and gentlemen, you may now disconnect your lines.
- **END**