

**Filatex India Ltd (FIL)**

**- Value added products to drive growth**

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Recommendation : Buy  
CMP : Rs. 27.25  
Sector : Textiles

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NSE Code : FILATEX  
BSE Code : 526227

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### Financial break up

Market Cap (Rs. Cr) : 601  
EPS (FY22E) : 6.60  
PE : 4.95  
Face Value : Rs.2/-

### Share Holding Pattern:

Promoters : 60.46  
Others : 39.54

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**Background:** Filatex India (FIL) is among the major cost efficient manufacturer of manmade yarns in India which has a diversified product portfolio. FIL manufactures a wide variety of yarns; POY, FDY and DTY in full range of coarse and fine deniers, in all kinds of shades and varieties like bright, semi dull, black and dope dyed colours. Polyester is becoming a preferred fibre globally given its unique characteristics which includes highly durability, wrinkle resilient apart from inherent limitations of growth of cotton fibre. Given the enhanced focus, capacity addition of value added products, the company expects the share to get further augmented to 75% by FY22E giving fillip to margins.

### Value added products

FIL, over the last decade, has transformed its product mix with enhanced focus on value added products. FDY, DTY are major value added products in FIL's product portfolio, which are witnessing strong demand in both domestic and international markets. On an average, FDY, DTY commands ~20%+ premium realisation over partially oriented yarns and yields higher margin. The company has gradually scaled up its presence in value added yarns with value added yarn revenue growing at a CAGR of ~ 44% in FY13- 20. Its share of revenue rose from 10% in FY13 to ~ 65% in FY20.

### Capacity additions & Utilization

Over the last two years the company has expanded the polymerization capacity from 900 TPD to 1050 TPD and also expanded the POY and DTY capacity by 170 TPD and 160 TPD to 510 TPD and 360 TPD, respectively. For FY20, the utilisation level was at ~93% despite the impact of Covid-19 in March 2020. FIL has been able to maintain high capacity utilization level in the range of 70-95% in FY13-20 owing to sustained domestic and export demand.

### Captive power plant

Power cost is among the significant input costs in polyester manufacturing. The company has a plant at Dahej, which has comparative higher power tariff than other regions. This has led to an increase in power cost for the company. To reduce the power cost, the company is setting up a captive thermal power plant with a capacity of 30 MW along with 1.4 MW solar power plants. The company is investing around Rs.165 crore for setting up the captive power plants. The project has been delayed due to Covid-19. FIL expects it to be operational by March 2021. The company is expecting annual savings in power cost to the tune of Rs. 45-50 crore from FY22E.

### Outlook & Valuation

We recommend a **Buy** on FIL for long term investors. Given the Capacity Additions , Diverse product range, High capacity Utilization due to demand from end user, Captive power plant, and Increasing Exports are key positives for the stock. At the CMP of INR 27.25, the stock trades at 4.13x EPS of FY22E. The key risks to the business include Steep increase in Raw Material cost, Forex Risk and Promoter pledge are the key risks of the company.

## Investment Arguments

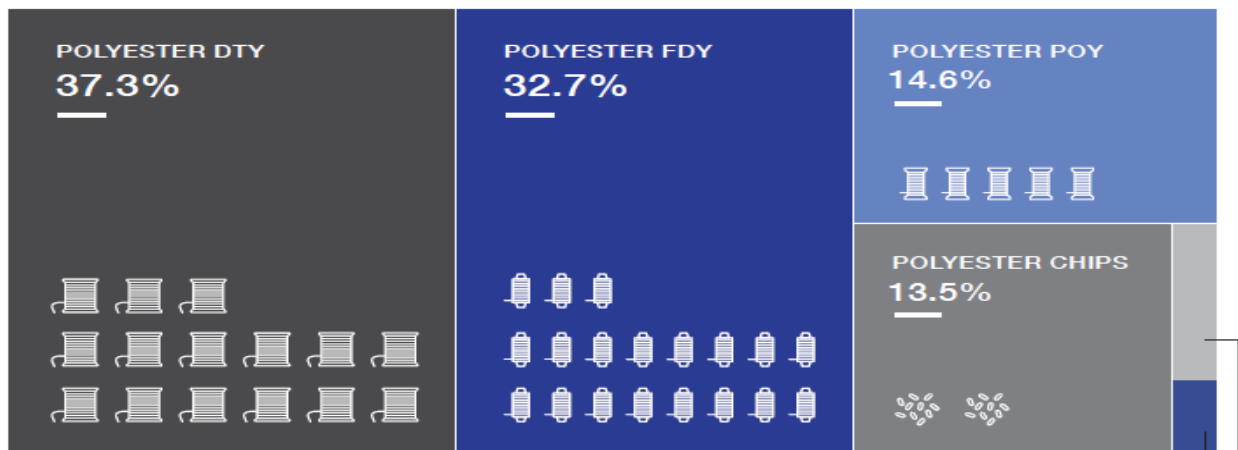
### Company Profile:

Filatex India (FIL) is among the major cost efficient manufacturer of manmade yarns in India which has a diversified product portfolio. FIL manufactures a wide variety of yarns; POY, FDY and DTY in full range of coarse and fine deniers, in all kinds of shades and varieties like bright, semi dull, black and dope dyed colours. Polyester is becoming a preferred fibre globally given its unique characteristics which includes highly durability, wrinkle resilient apart from inherent limitations of growth of cotton fibre. The MMF currently dominates global textile fibre consumption with 70:30 ratio). FIL is one of the top five manufacturers of manmade yarns that over the years has gradually scaled up its presence in value added segments (FDY, DTY) with its share of revenue rising from mere 10% in FY13 to ~ 65% in FY20.

Given the enhanced focus, capacity addition of value added products, the company expects the share to get further augmented to 75% by FY22E giving fillip to margins. Another key lever for margin enhancement is its captive power plant that is expected to be commissioned by April 2021 which will lead to annual cost savings of Rs. 45-50 crore.

FIL's plant at Dahej is an integrated spinning facility with continuous polymerisation that was set up in FY12. In-house production of partially oriented yarns (POY) helps the company in low-cost manufacturing of drawn textured yarn (DTY). The company has a total production capacity of 383000 MTPA (net capacity).

#### Production Capacities - Net of Captive



Particulars	Production	Captive	Net
Polyester Chips	86,400	34,600	51,800
Polyester POY	1,99,800	1,44,000	55,800
Polyester DTY	1,44,000	1,200	1,42,800
Polyester FDY	1,26,400	1,200	1,25,200
Polypropylene	9,000	4,000	5,000
Narrow Woven Fabrics	2,400	0	2,400

**NARROW WOVEN FABRICS**  
**0.6%**

**POLYPROPYLENE**  
**1.3%**

## **Product Portfolio**

### [Polyester Chips](#)

PET (polyethylene terephthalate) chips are produced by granulizing polyester formed in a polycondensation reaction of pure terephthalic acid and monoethylene glycol. They are an industrial intermediate product used to manufacture Polyester yarns. PET Chips used in Textile Industry are also known as Fibre grade PET chips, filament grade PET chips or textile grade PET chips. Textile grade PET Chips are used for making Polyester Filament yarn like POY, FDY and Staple fibre used widely in the Textile industry.

### [Partially Oriented Yarns \(POY\)](#)

Partially oriented yarn is produced from the melting and extrusion (melt spinning) of the polyester chip or melt. During the spinning process, the filaments are stretched or drawn as much as five times their original size to orient the polymer to meet the desired evenness, strength, shrinkage, and elongation properties. The term partially oriented yarn refers to multi-filament that is only partially stretched. POY has to be texturised to make textured yarn and can also be used in draw warping for weaving and warp knitting of fabrics.

### [Drawn Textured Yarn \(DTY\)](#)

Produced by drawing & heating POY through a texturing process. It is used for manufacturing fabrics. Polyester DTY yarn is a continuous filament yarn that has been processed to add durable crimps twists, interlaces, loops or other fine distortions along the lengths of the filament. Polyester DTY yarn can also be obtained in various colors by the dope dyed technology or by conventional dyeing. DTY is used for fabric end uses like outer/inner garments, skin-clinging garments, furnishings, upholstery, etc.

### [Fully Drawn Yarns \(FDY\)](#)

Fully Drawn Yarn (FDY) is produced by a process similar to POY except that the yarn is produced at higher spinning speeds and drawn fully. FDY is mainly used as weft or weaves in making fabrics. FDY can be used with any other filament yarn to the get fabric of different varieties. Fully drawn polyester filament yarn is directly used for producing all kinds of fabrics especially for children and ladies.

### [Polypropylene Multifilament Crimp Yarns \(PPY\)](#)

PP Yarn is extruded in Denier range 100 to 300 in various filament combinations and further Texturized on Draw Texturizing machines. PPY has low moistening characteristics which make it very easy to clean. The specific gravity of PPY is 0.91, which is lower than Nylon or Polyester. So under the same weight conditions, one gets more length of PP yarns compared to Nylon or Polyester yarns. PPY is used in the stitching of Socks, Under Garments, Sports Wear, Woven Sacks, Geo Textiles, Sofa Sets, Safety Belts, Sewing Thread and Rope.

### [Narrow Woven Fabric \(NWF\)](#)

Narrow fabrics are non-elastic woven textile having a width of 12 inches or less and a woven selvage on either side. They are small strips of fabric, often designed for a specific and practical purpose. NWF comes in different varieties such as satin cord, fancy cord, and tape, all types of

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zipper tapes, mattress tape, leashes, elastic tape, ribbon, plain and fancy belts. NWF was initially used in the garment industry on hats, corsets, and lingerie, and in military uniforms as well. Nowadays soldiers will also find narrow fabrics in their pack webbing and parachutes as well as their waist belts, helmets, and body armour. NWF can be seen in everyday objects in our lives, from the seat belts in our car, to the leash used to walk our dog, to the tough fabric edging on their mattress.

## **End User Industries**

### [Women Wear and Inner Wear](#)

Seam softness is critical in these garments. The textured Micro Denier has met the expected requirements and is being used in Lingerie, Performance garments - Activewear, Yoga wear, low shrinkage to ensure no seam distortion after washing & soft feel make these yarns ideal choice.

### [Apparel](#)

Polyester Filament Yarns are extensively used in apparel - Trousers, Shirts, Suitings & Sarees. PFY is a high strength filament that can withstand repetitive movements. Colour Fastness of Polyester Fiber is excellent. Other properties like being wear resistant, water resistant, wrinkle resistant and hydrophobic properties make it ideal for all kinds of apparel.

### [Home Textiles & Furnishings](#)

Polyester Filament Yarn is also used for Home Furnishings, Fashion Fabrics, Terry Towels, Bed Sheets, Curtains, and Carpets. Other growing applications are Upholstery Fabrics. Properties such as stain resistance make it ideal for carpets.

### [Athleisure](#)

The preferred material for sportswear is Polyester Yarn. Sports leisure clothing require a fabric that's not only strong & durable but also abrasion resistant. Ease of washing & corrosion resistance makes them easy to maintain with long usage life.

### [Industrial](#)

Polyester finds application in a lot of industrial uses, owing to its strength and durability over natural fibres. It is used in the manufacturing of high strength ropes, threads, hoses, sails, power belting and much more.

### [PPE Kits & Protective Masks](#)

Polyester & Polypropylene is used in the components of PPE kits as well as protective masks. Properties such as corrosion resistant, wear resistant and low shrinkage make them an ideal choice to allow longer usage life.

## **Capacity additions & Utilization**

Over the last two years the company has expanded the polymerization capacity from 900 TPD to 1050 TPD and also expanded the POY and DTY capacity by 170 TPD and 160 TPD to 510 TPD and 360 TPD, respectively. For FY20, the utilisation level was at ~93% despite the impact of Covid-19 in March 2020.

FIL has been able to maintain high capacity utilisation level in the range of 70-95% in FY13-20 owing to sustained domestic and export demand, which has led to strong sales volume CAGR of 15% over the same period.

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In Q1FY21, demand remained weak owing to lower demand from downstream industries due to restrictions on manufacturing and trade amid the spread of Covid-19 across the globe. However, demand has picked up gradually from mid-July onwards. In August, the company operated at ~90% capacity utilisation. The yarn capacity is operating at ~100% while polyester chips capacity utilisation is a bit lower. Overall domestic market demand is improving owing to lower imports from China, Bangladesh and Sri Lanka. Also, downstream consumers are not travelling abroad to other competing countries. Rather, they are sourcing their requirements from domestic players, which is aiding demand revival.

Around 5-7% of domestic capacity has been wiped off due to fire at a major polyester plant. It would take another 1.5 years for this capacity to be reinstated. Even though a large existing player, which is currently operating at ~60% capacity utilisation and expects to ramp up to 100%, adding around 200-250 tonnes per day to the industry capacity, it would still be lower by 2-3% than earlier existing industry capacity. The capacity deficit is likely to benefit existing players in terms of volume growth. Owing to a sharp decline in realisation and volume decline owing to pandemic the company expects revenue to see some weakness in FY21. However, the company expects demand revival and low base effect to lead to a sharp recovery in topline growth in FY22E.

### Enhancing share of value added products

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Product categories	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E
Polyester chips	34.6	16.6	10.7	12.2	9	11	9.2	6.7	8.3	6.2
Polyester POY	39.6	55.8	53.2	51.7	29.6	21.3	18.4	23.7	12.8	14.8
Polyester DTY (value added products )	1.3	1.5	3.7	7.4	24	33.9	28.5	29.9	39.7	43.2
Polyester FDY (value added products )	8.5	6.9	7.2	12	27.6	26.3	39.2	34.4	33.8	31.9
Polypropylene	7	5.1	5.4	5.7	4	3.2	2.3	2.4	2	1.7
Narrow fabrics	1.1	1.4	1.6	1.6	1.4	1.2	0.8	0.7	0.9	0.9
Monofilament yarn (discontinued)	1.8	1	1	1.1	1.1	0.3	0	0	0	0
Others	6	11.8	17.1	8.2	3.4	3	1.6	2.2	2.5	1.4

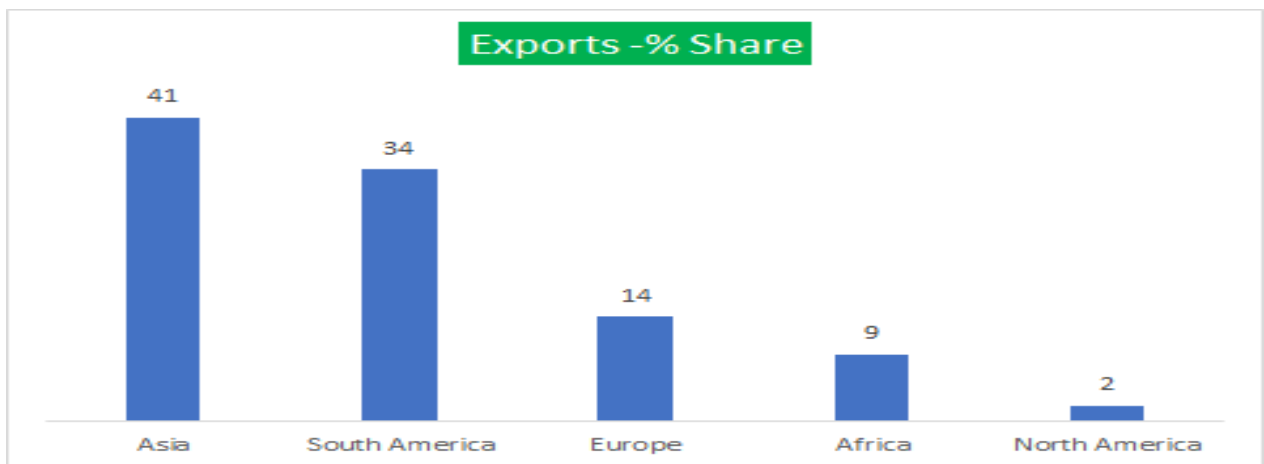
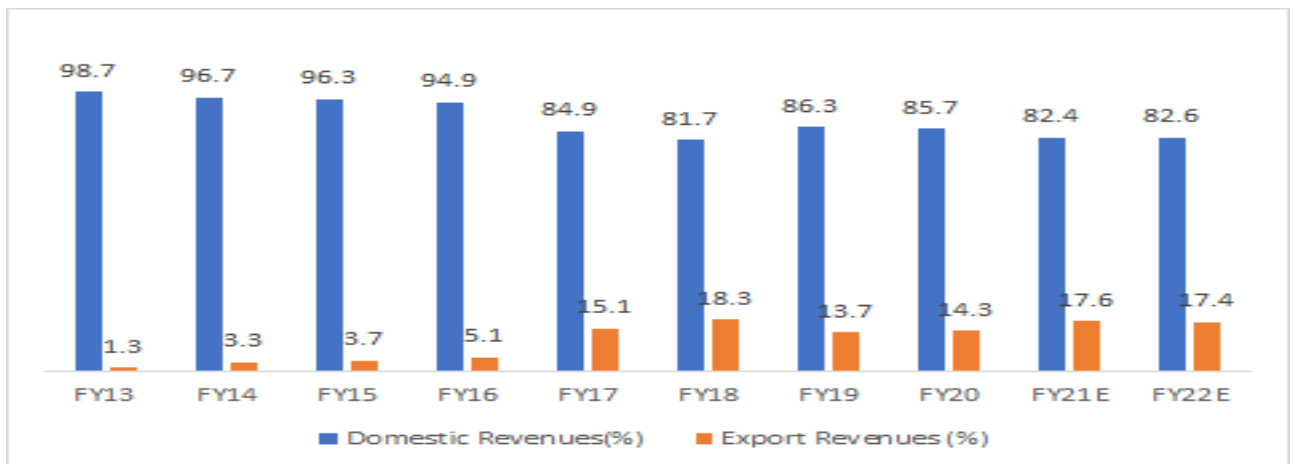
### Captive power plant

Power cost is among the significant input costs in polyester manufacturing. The company has a plant at Dahej, which has comparative higher power tariff than other regions. This has led to an increase in power cost for the company. To reduce the power cost, the company is setting up a captive thermal power plant with a capacity of 30 MW along with 1.4 MW solar power plants. The company is investing around Rs.165 crore for setting up the captive power plants. The project has been delayed due to Covid-19. FIL expects it to be operational by March 2021. The company is expecting annual savings in power cost to the tune of Rs. 45-50 crore from FY22E

onwards. Reduction in power cost would enable FIL to improve its margins, going ahead. The company expects EBITDA margins to improve from 8.0% to 10.7% over FY22-23E.

### Increasing share of Exports

Increased value added products have enabled FIL to penetrate the export market. Export revenues have grown at 57% CAGR in FY13-20 with share of exports increasing from ~ 1% in FY13 to 14% in FY20. The company expects the share of exports to increase to 17% by FY22. Asia and South America constitute ~75% of FIL's export revenues, while Europe and Africa contribute ~ 14% and 9%, respectively. Post resumption after the lockdown, FIL has received enquiries from the newer export markets as global brands are looking at shifting their supply chains to countries other than China in a bid to diversify their sourcing partners and reduce dependence on sourcing from China.



### Foray into recycled polyester

The company is working on a pilot project of recycled polyester through recycling of polyester waste by developing own in-house technology. It has developed a pilot plant adopting glycolysis process and is carrying out trials for depolymerisation and re-polymerisation of PET waste and yarn waste. The project is expected to be completed by March 2021.

The management indicated that recycled polyester chip commands a higher realisation which commands a premium of ~Rs. 25-30 while recycled polyester DTY yarn commands a premium of Rs. 60-70 per kg compared to normal DTY polyester yarn. Demand for recycled polyester is high in international markets and brands usually specify to vendors to use certain percentage of recycled yarn for the final product.

Post completion of the pilot project, the company will initially start production of recycled polyester chips and also set up a recycled polyester DTY capacity. The capex for this project is expected to be ~Rs.100 crore with Rs. 50 crore each expected to be spent in FY21 and FY22. As per the management, the margins in recycled polyester businesses are significantly higher than normal polyester products.

### **Removal of Anti-dumping duty - Growth Driver**

Traditionally, the Textile Ministry has been skewed in its favoured cotton as it supports the livelihood of almost 5.8 million farmers.

However, Polyester has become the most preferred fibre in the global textiles industry due to its better physical properties, lower price, versatility, and recyclability, which offer a completely unique set of benefits unmatched by any other natural or synthetic fibres. Polyester filaments has been segmented into apparel, home furnishing, automotive, construction, filtration, and personal care and hygiene applications.

The Indian polyester industry, for last six years, had been at a distinct cost disadvantage in global competitiveness on account of Anti-Dumping Duty on key raw material i.e. PTA. Man Made Fibre industry associations and users of PTA had been vigorously representing and following up the Government authorities to remove this punitive duty and address the structural anomalies like “Inverted Duty” structure which are hampering the growth. Polyester industry continues to suffer on account of inverted GST structure – higher rate of 18% on raw material & 12% on finished products like yarn & fiber and going forward 5% on fabrics and garments.

Finally, the global shift in fashion toward MMF was noticed by the government and the additional anti-dumping duty on PTA was abolished by Ministry of Finance in the budget announced on February 2020. The whole polyester industry has become hopeful at the removal of this major burden that had been hampering the growth of the Indian polyester industry. This abolishment has levelled the playing field for the Indian manufacturers and is likely to have a positive impact in domestic business environment as well as global competitiveness.

### **Key Risks**

**Increase in the Raw Material Prices:** Raw material accounts for major cost component for the manmade textiles industry. The major raw material for the polyester industry is PTA, MEG, which are crude oil derivatives. Any steep increase in price of PTA and MEG can significantly impact the realizations which will impact the company’s margins as the company will not be able to pass on the entire price increase to the end user.

**Forex Risk:** FIL’s derives about 14% of its revenues from exports. The company intends to increase its share of exports to enhance its revenues and profitability. However strengthening of the Indian Rupee will impact the company’s competitiveness when compared to global peers.

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**Pledging of shares:** The Promoter holding is pledged to the extent of ~ 36.51% in Q1FY21. Any increase in pledging by promoters or invocation of existing pledged shareholding in the open market by lenders can have a negative impact on the stock price of the company.

## Financials

### P&L

P&L (Rs Cr)	FY19	FY20	FY21E	FY22E
Net Sales	2,874.10	2,782.10	1,949.70	2,887.90
Total Raw Material Cost	2,364.60	2,214.00	1,544.20	2,261.20
Employee Expenses	63.2	74.7	58.5	78
Other Expenses	229.8	271.3	193	239.7
Total Operating Expenditure	2,657.60	2,559.90	1,795.70	2,578.90
EBITDA	216.5	222.2	154	309
Interest	54.7	61.3	65.8	60.9
Depreciation	45	51.3	59.4	65.3
Other Income	11.8	12.4	11.2	10.6
Exceptional Expense	2.3	0	0	0
PBT	131	122	40	193.4
Total Tax	46.1	0.5	10.1	48.7
Profit After Tax	84.8	121.5	30	144.7
EPS	3.9	5.5	1.4	6.6

## Balance Sheet

Balance Sheet (Rs Cr)	FY19	FY20	FY21E	FY22E
Equity Capital	43.5	43.9	43.9	43.9
Reserve and Surplus	428.1	550.9	578.8	694.6
Total Shareholders funds	471.6	594.9	622.8	738.5
Total Debt	604.1	717.3	731.2	676.8
Non Current Liabilities	91.8	68.6	66.2	72.8
<b>Total Liabilities</b>	<b>1167.5</b>	<b>1380.8</b>	<b>1420.2</b>	<b>1488.1</b>
Gross block	1,031.30	1,268.40	1,413.40	1,483.40
Less : Accum depreciation	103.4	153.1	212.4	277.7
Net Fixed Assets	927.9	1,115.30	1,200.90	1,205.70
Capital WIP	71.5	25.1	15	15
Intangible assets	0.7	0.7	0.7	0.7
Investments	0.1	0	0	0
Inventory	172.7	171.7	128.2	189.9
Cash	44.2	21.8	8.1	22.7
Debtors	98.7	118.7	90.8	134.5
Loans & Advances & Other Current Assets	82	92.9	97.5	102.4
Total Current Assets	397.6	405	324.6	449.4
Sundry Creditors	179	186	138.9	197.8
Provis ions & Other Current Liabilities	68.5	54.6	57	59.6
Total Current Liabilities	247.5	240.7	195.9	257.4
Net Current Assets	150.1	164.4	128.7	192
Other Assets	17.3	75.3	74.9	74.7
<b>Total Assets</b>	<b>1,167.50</b>	<b>1,380.80</b>	<b>1,420.20</b>	<b>1,488.10</b>

## Cash Flow Statement

Cash Flow Statement (Rs Cr)	FY19	FY20	FY21E	FY22E
PAT	84.8	121.5	30	144.7
Depreciation	45	51.3	59.4	65.3
Net Increase in Current Assets	83.7	-29.9	66.8	-110.2
Net Increase in Current Liabilities	-25.7	-6.8	-44.7	61.5
Cash Flow from Operating Activities	187.8	136.1	111.3	161.2
( Inc ) /dec in Investments	-0.1	0	0	0
( Inc ) /dec in Fixed Assets	-93.7	-192.3	-134.9	-70
Others	6.1	-58	0.4	0.2
Cash Flow from Investing Activities	-87.6	-250.3	-134.5	-69.8
Inc / (Dec) in Equity Capital	0	0.4	0	0
Inc / (Dec) in Loan	-106.8	113.3	13.9	-54.4
Others	25.2	-21.9	-4.5	-22.4
Cash Flow from Financing Activities	-81.6	91.8	9.4	-76.8
Net Cash Flow	18.6	-22.3	-13.7	14.6
Opening Cash Balance	25.5	44.1	21.8	8.1
Closing Cash Balance	44.1	21.8	8.1	22.7

## Key Financial ratio's

Ratio's	FY19	FY20	FY21E	FY22E
EBITDA Margins (%)	7.5	8	7.9	10.7
PBT Margins (%)	4.6	4.4	2.1	6.7
Net Profit Margins (%)	3	4.4	1.5	5
Inventory days	21.9	22.5	24	24
Debtor days	12.5	15.6	17	17
Creditor days	22.7	24.4	26	25
Book Value	21.7	27.1	28.3	33.6
Dividend Per Share	0	0	0	1.3
Cash Per Share	2	1	0.4	1
RoE (%)	18	20.4	4.8	19.6
RoCE (%)	17	14	7.8	18
RoIC (%)	19.1	14.5	8	18.5

## Disclaimer

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