Khambatta Securities Ltd. MEMBER OF EQUITY & DERIVATIVE SEGMENTS — THE STOCK EXCHANGE, MUMBAI; NATIONAL STOCK EXCHANGE OF INDIA LTD.
DEPOSITORY PATICIPANT — CENTRAL DEPOSITORY SERVICES (I) LTD.
Tel: +91-(0)22 4027 3300
Fax: +91-(0)22 6641 3377
www.khambattasecurities.com

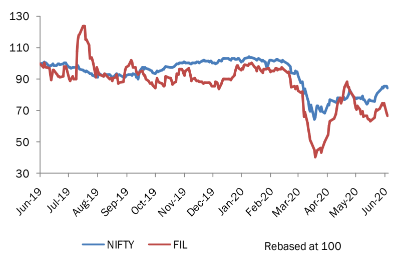
Filatex India Limited

10 June 2020

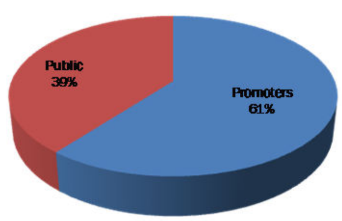
Improvement in sales mix and new captive power plant will drive margins — BUY

Sector	: Textiles
Target Price	: Rs 53
Current Market Price	: Rs 27
Market Cap	: Rs 601 crore
52-week High/Low	: Rs 52/15
Daily Avg. Volume	: 2,63,292
Face Value	: Rs 2
Beta	: 1.27
Pledged Shares	: 22%
Year End	: March
BSE Scrip Code	: 526227
NSE Scrip Code	: FILATEX
Bloomberg Code	: FLTX IN
Reuters Code	: FLTX.NS
Nifty	: 10,047
BSE Sensex	: 33,957
Analyst	: Research Team

Price Performance



Shareholding Pattern



FY20 Update Report

Result Highlights

- Filatex India Limited (FIL) reported a 3.2% y-o-y decline in operating revenue to Rs 2,782 crore in FY20. Last quarter revenue was partially affected due to a decline in product pricing in line with lower raw material prices (driven by the fall in crude prices), and production and sales loss due to the COVID-linked lockdown. Sales volume increased 14.8% y-o-y to 3.24 lakh MT. On the positive side though the production loss shielded the company from inventory buildup and loss in inventory due to the price contraction.
- Gross margin expanded from 17.7% in FY19 to 20.4% in FY20. EBITDA increased by 2.6% y-o-y to Rs 222.1 crore while EBITDA margin gained 45 bps to touch 8.0% for the full year, aided by a higher margin of 9.3% (+152 bps y-o-y) during 4Q FY20 as product prices fell by a proportionately lesser degree compared to the decline in raw material prices (due to a lockdown-driven undersupply environment).
- FY 20 PAT increased by 43.2% y-o-y to Rs 121.5 crore while PAT margin expanded by 141 bps to 4.4%. The strong growth in PAT is attributable to a deferred tax credit of Rs 20.78 crore, resulting in a net tax expense of Rs 51 lakh and an effective tax rate of 0.42% for the full year.

Valuation

The promoters' holding in FIL increased from 58.7% to 60.6% during 2H FY20. At current levels, the FIL stock is trading at very attractive levels of 8.5x and 4.7x FY21E and FY22E EPS, respectively. Based on a target P/E multiple of 9.0x (factoring in the pandemic-driven demand slowdown), we value FIL at Rs 53, representing a 92% upside from current levels and informing a BUY rating.

Key Financial Metrics

Rs crore	FY18A	FY19A	FY20A	FY21E	FY22E
Operating revenue	1,928.0	2,874.1	2,782.1	1,939.1	2,637.2
Growth		*49.1%*	*-3.2%*	*-30.3%*	*36.0%*
EBITDA	157.0	216.5	222.1	174.5	276.9
EBITDA margin	*8.1%*	*7.5%*	*8.0%*	*9.0%*	*10.5%*
PAT	59.8	84.8	121.5	71.5	129.7
PAT margin	*3.1%*	*3.0%*	*4.4%*	*3.7%*	*4.9%*
Diluted EPS (Rs)	13.53	3.83	5.48	3.23	5.85

Note: EPS from FY19 onwards reflect 1:5 stock split
Source: Company data; Khambatta Research

Outlook

Much of FIL's 1Q FY20 will be impacted by production stoppage and unavailability of workers due to the COVID outbreak and the nationwide lockdown. Close to 50 days were lost in the quarter while currently production is running at a 30% utilization rate with around 40% workers on leave. Utilization rates are expected to increase to 55% to 60% in 1-1.5 months and gain further thereafter. Consequently we expect FIL's full-year topline to decline in FY21. Thereafter, we expect strong revenue growth in FY22, driven by a low base effect and pent-up demand. FY21 EBITDA margin is expected to benefit from a higher proportion of drawn textured yarn (DTY) in the sales mix and higher product prices until global capacities return to normal production levels. We expect further expansion of EBITDA margin in FY 22 with the new captive power plant coming online in 4Q FY21.

Financial Performance

Rs crore	4Q FY19	4Q FY20	Y-o-y	FY19	FY20	Y-o-y
Operating revenue	705.8	667.3	-5.4%	2,874.1	2,782.1	-3.2%
EBITDA	55.1	62.3	13.0%	216.5	222.1	2.6%
EBITDA margin	*7.8%*	*9.3%*	*152 bps*	*7.5%*	*8.0%*	*45 bps*
PAT	28.1	21.0	-25.2%	84.8	121.5	43.2%
PAT margin	*4.0%*	*3.2%*	*-83 bps*	*3.0%*	*4.4%*	*141 bps*
Diluted EPS (Rs)	1.27	0.95	-25.2%	3.83	5.48	42.9%

Source: Company data

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Guide to Khambatta's research approach

Valuation methodologies

We apply the following absolute/relative valuation methodologies to derive the 'fair value' of the stock as a part of our fundamental research:

DCF: The Discounted Cash Flow (DCF) method values an estimated stream of future free cash flows discounted to the present day, using a company's WACC or cost of equity. This method is used to estimate the attractiveness of an investment opportunity and as such provides a good measure of the company's value in absolute terms. There are several approaches to discounted cash flow analysis, including Free Cash Flow to Firm (FCFF), Free Cash Flow to Equity (FCFE) and the Dividend Discount Model (DDM). The selection of a particular approach depends on the particular company being researched and valued.

ERE: The Excess Return to Equity (ERE) method takes into consideration the absolute value of a company's return to equity in excess of its cost of equity discounted to the present day using the cost of equity. This methodology is more appropriate for valuing banking stocks than FCFF or FCFE methodologies.

Relative valuation: In relative valuation, various comparative multiples or ratios including Price/Earnings, Price/Sales, EV/Sales, EV/EBITDA, Price/Book Value are used to assess the relative worth of companies which operate in the same industry/industries and are thereby in the same peer group. Generally our approach involves the use of two multiples to estimate the relative valuation of a stock.

Other methodologies such as DuPont Analysis, CFROI, NAV and Sum-of-the-Parts (SOTP) are applied where appropriate.

Stock ratings

Buy recommendations are expected to improve, based on consideration of the fundamental view and the currency impact (where applicable) by at least 15%.

Hold recommendations are expected to improve, based on consideration of the fundamental view and the currency impact (where applicable) between 5% and 15%.

Sell recommendations are expected to improve up to 5% or deteriorate, based on consideration of the fundamental view and the currency impact (where applicable).

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