

## Improvement in yarn spreads to boost profitability...

Product realisations across polyester oriented yarn (POY), fully drawn yarn, drawn textured yarn (DTY) have improved from October 2020 while raw material prices have not risen in similar proportion. This has led product spreads to improve for Indian polyester yarn manufacturers. Filatex being a major player in the Indian polyester industry appears well placed to benefit from enhanced margin profile for products like polyester chips, POY/FDY, DTY. As per Crisil data, margins for POY that had fallen from ~ ₹ 26/kg in March 2020 to ~₹ 12/kg in July 2020 have improved significantly and are trending better than pre-Covid levels at ~ ₹ 27/kg in October 2020. The improved product margins augurs well for its overall profitability. We expect margins to stay strong in H2FY21E driven by improved demand scenario (both domestic, export) and capacity constraint due to 7-8% of industry capacity being not functional owing to fire at one of major manufacturer's production facility in Silvassa. The supply shortfall is expected to continue as restarting the manufacturing facility would take some time that would enable better realisations to other players in the industry.

## Capex to focus on lowering power cost, enhancing margin

The current capex programme of FIL is focusing on two projects. The company is implementing setting up of a 30 MW thermal power plant to reduce its per unit power cost that is a significant cost component in the polyester manufacturing industry. The total cost of the power project is ~₹ 165 crore while the company has already spent ₹ 70 crore and is expected to spend ~ ₹ 90 crore by April 2021. It is expecting annual saving in power cost to the tune of ₹ 45-50 crore from FY22E onwards. The second capex project is the company's foray into recycled chips and polyester yarn. Filatex is currently running a pilot project and is expected to spend ~₹ 90-100 crore in the next two years. The recycled polyester chips and yarn command a significantly higher realisation and sustained demand in international markets that would aid in improving the profitability of the company once these projects are implemented.

## Valuation & Outlook

The outlook for the polyester industry appears to be better owing to enhanced government focus on the sector with support for the sector through production linked incentive (PLI) scheme. Also, withdrawal of anti-dumping duty on PTA (key raw material for polyester) from February 2020 is positive for the sector as yarn manufacturers are now able to procure PTA at international price parity that is expected to improve their margin profile. The enhanced demand for polyester based products would improve FIL's utilisation levels and will further augment the margin profile. Factoring in the better industry outlook and improved product margins, we revise upwards our revenue, earnings estimates for FY21E, FY22E, respectively. Subsequently, we expect RoCE to get enhanced by 760 bps to 21.6% in FY20-22E. We reiterate our **BUY** recommendation on the stock with a revised target price of ₹ 55 (6.0x FY22E EPS, previous target price: ₹ 33).

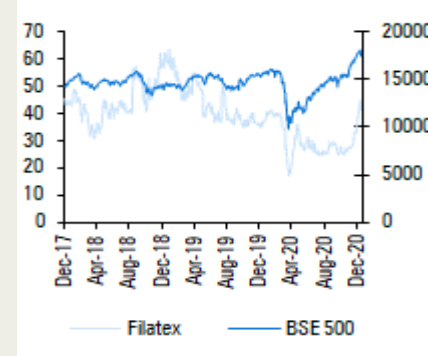


Filatex India Limited

### Particulars

Particulars	Amount
Market Capitalisation (₹ crore)	966.6
Total Debt (FY20) (₹ crore)	717.3
Cash (FY20) (₹ crore)	21.8
EV (₹ crore)	1,662.1
52 Week H / L	46 /16
Equity Capital (₹ crore)	43.9
Face Value (₹)	2.0

### Price Performance



### Risk to our call

- 1) Any sustained surge in raw material prices (PTA/MEG) that the company is unable to pass on to end users can suppress the margins of the company
- 2) Delay in implementation of power project can keep power cost higher than our assumption and result in lower than expected operating margins

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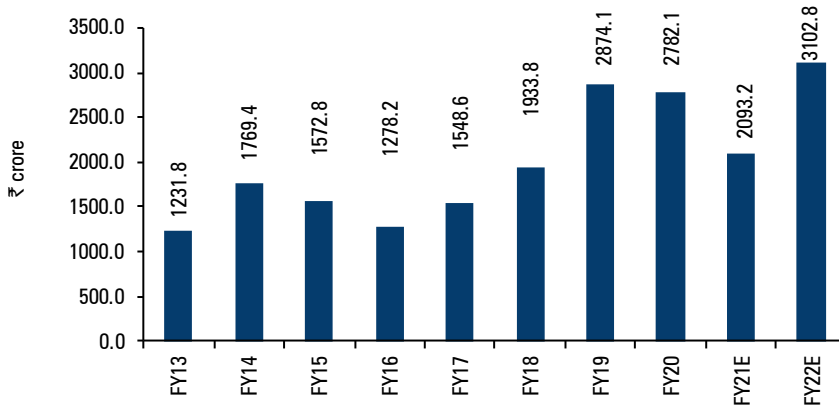
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### Key Financial Summary

₹ crore	FY18	FY19	FY20	FY21E	FY22E	CAGR (FY20-22E)
Net Sales	1,933.8	2,874.1	2,782.1	2,093.2	3,102.8	5.6%
EBITDA	157.0	216.5	222.2	205.1	372.3	29.5%
Adjusted PAT	59.7	84.8	121.5	68.9	196.1	
P/E (x)	16.0	11.3	8.0	14.0	4.9	
EV/EBITDA (x)	10.5	7.0	7.5	8.1	4.1	
RoCE (%)	12.5	17.0	14.0	11.3	21.6	
RoE (%)	15.5	18.0	20.4	10.4	22.9	

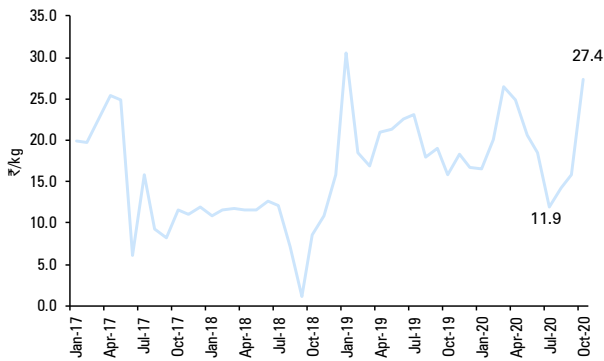
## Financial story in charts

Exhibit 1: Revenue trend



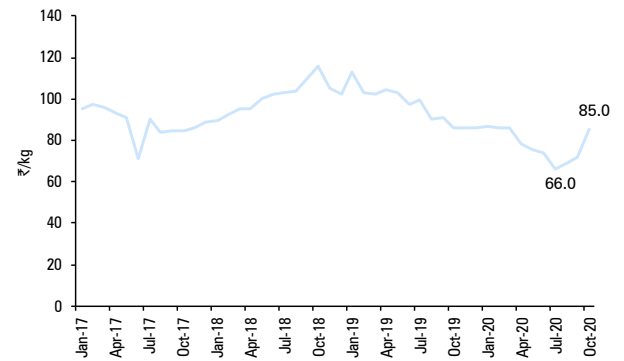
Source: Company, ICICI Direct Research

Exhibit 2: POY spread trend



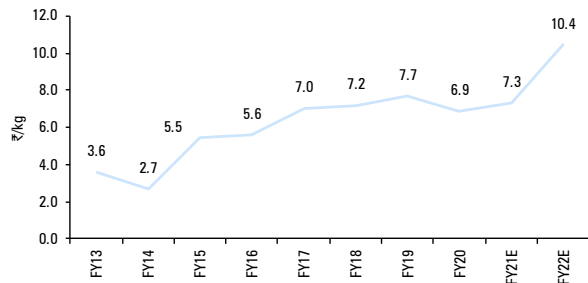
Source: Crisil, ICICI Direct Research

Exhibit 3: POY price trend



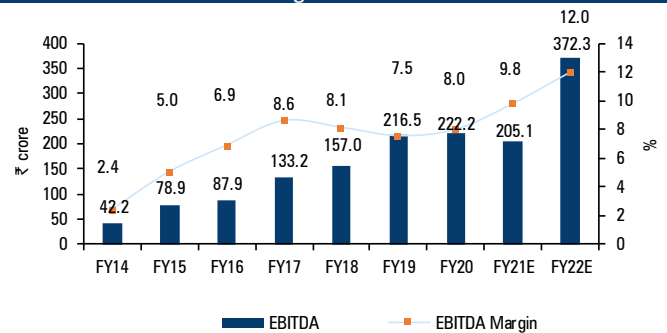
Source: Crisil, ICICI Direct Research

Exhibit 4: EBITDA/kg trend



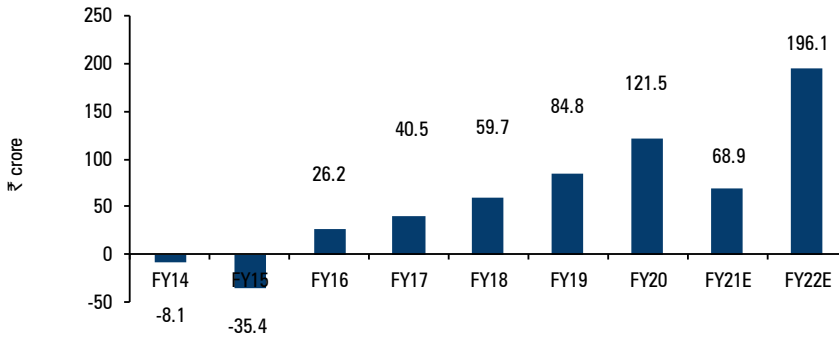
Source: Company, ICICI Direct Research

Exhibit 5: EBITDA and margin trend



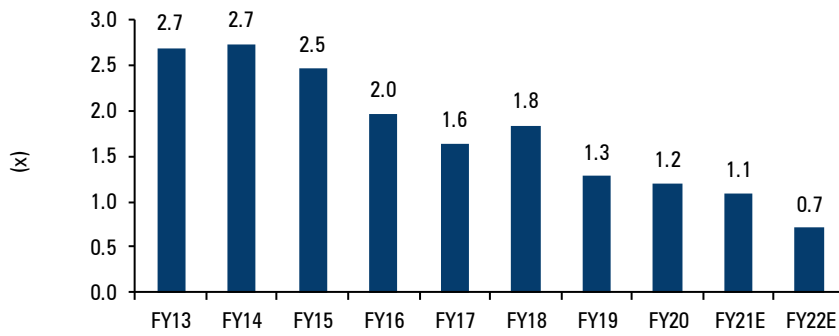
Source: Company, ICICI Direct Research

Exhibit 6: PAT trend



Source: Company, ICICI Direct Research

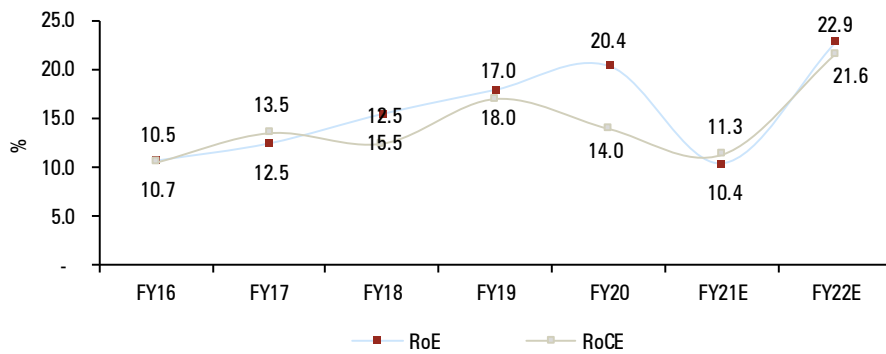
Exhibit 7: Debt/equity ratio trend



Source: Company, ICICI Direct Research

With no major capex to be incurred in FY22E, we expect the company to generate strong FCF leading to debt reduction to the tune of ₹ 115 crore by FY22E

Exhibit 8: Return ratio trend



Source: Company, ICICI Direct Research

## Financial Summary

### Exhibit 9: Profit & Loss Statement

(Year-end March)	FY19	FY20	FY21E	FY22E
<b>Net Sales</b>	2,874.1	2,782.1	2,093.2	3,102.8
Growth (%)	48.6	(3.2)	(24.8)	48.2
Total Raw Material Cost	2,364.6	2,214.0	1,618.1	2,389.1
Gross Margins (%)	17.7	20.4	22.7	23.0
Employee Expenses	63.2	74.7	62.8	83.8
Other Expenses	229.8	271.3	207.2	257.5
Total Operating Expenditure	2,657.6	2,559.9	1,888.1	2,730.4
<b>EBITDA</b>	216.5	222.2	205.1	372.3
EBITDA Margin	7.5	8.0	9.8	12.0
Interest	54.7	61.3	64.9	54.6
Depreciation	45.0	51.3	59.4	66.1
Other Income	11.8	12.4	11.2	10.6
Exceptional Expense	2.3	-	-	-
PBT	131.0	122.0	92.0	262.2
Total Tax	46.1	0.5	23.2	66.1
<b>Profit After Tax</b>	84.8	121.5	68.9	196.1

Source: Company, ICICI Direct Research

### Exhibit 10: Cash Flow Statement

(Year-end March)	FY19	FY20	FY21E	FY22E
Profit/(Loss) after taxation	84.8	121.5	68.9	196.1
Add: Depreciation	45.0	51.3	59.4	66.1
Net Increase in Current Assets	83.7	-29.9	50.6	-118.3
Net Increase in Current Liabilities	-25.7	-6.8	-34.5	65.9
<b>CF from operating activities</b>	<b>187.8</b>	<b>136.1</b>	<b>144.4</b>	<b>210.0</b>
(Inc)/dec in Investments	-0.1	0.0	0.0	0.0
(Inc)/dec in Fixed Assets	-93.7	-192.3	-134.9	-90.0
Others	6.1	-58.0	0.4	0.2
<b>CF from investing activities</b>	<b>-87.6</b>	<b>-250.3</b>	<b>-134.5</b>	<b>-89.8</b>
Inc / (Dec) in Equity Capital	0.0	0.4	0.0	0.0
Inc / (Dec) in Loan	-106.8	113.3	3.9	-114.4
Others	25.2	-21.9	-4.5	6.5
<b>CF from financing activities</b>	<b>-81.6</b>	<b>91.8</b>	<b>-0.6</b>	<b>-107.8</b>
Net Cash flow	18.6	-22.3	9.3	12.3
Opening Cash	25.5	44.1	21.8	31.1
<b>Closing Cash</b>	<b>44.1</b>	<b>21.8</b>	<b>31.1</b>	<b>43.4</b>

Source: Company, ICICI Direct Research

### Exhibit 11: Balance Sheet

(Year-end March)	FY19	FY20	FY21E	FY22E
Equity Capital	43.5	43.9	43.9	43.9
Reserve and Surplus	428.1	550.9	617.8	813.9
Total Shareholders funds	471.6	594.9	661.7	857.8
Total Debt	604.0	717.3	721.2	606.8
Non Current Liabilities	91.8	68.6	66.2	72.8
<b>Source of Funds</b>	<b>1,167.5</b>	<b>1,380.8</b>	<b>1,449.1</b>	<b>1,537.4</b>
Gross block	1,031.3	1,268.4	1,413.4	1,503.4
Less: Accum depreciation	103.4	153.1	212.4	278.6
Net Fixed Assets	927.9	1,115.3	1,200.9	1,224.8
Capital WIP	71.5	25.1	15.0	15.0
Intangible assets	0.7	0.7	0.7	0.7
Investments	0.1	0.0	-	-
Inventory	172.7	171.7	137.6	204.0
Cash	44.2	21.8	31.1	43.4
Debtors	98.7	118.7	97.5	144.5
Loans & Advances & Other CA	82.0	92.9	97.5	102.4
Total Current Assets	397.6	405.0	363.7	494.3
Creditors	179.0	186.0	149.1	212.5
Provisions & Other CL	68.5	54.6	57.0	59.6
Total Current Liabilities	247.5	240.7	206.1	272.1
Net Current Assets	150.1	164.4	157.6	222.2
LT L& A, Other Assets	17.3	75.3	74.9	74.7
Other Assets	0.0	0.0	0.0	0.0
<b>Application of Funds</b>	<b>1,167.5</b>	<b>1,380.8</b>	<b>1,449.1</b>	<b>1,537.4</b>

Source: Company, ICICI Direct Research

### Exhibit 12: Key Ratios

(Year-end March)	FY19	FY20	FY21E	FY22E
<b>Per share data (₹)</b>		50.40	42.0	53.6
EPS	3.9	5.5	3.1	8.9
Cash EPS	6.0	7.9	5.8	11.9
BV	21.7	27.1	30.1	39.0
DPS	0.0	0.0	0.0	0.0
Cash Per Share	2.0	1.0	1.4	2.0
<b>Operating Ratios (%)</b>				
EBITDA margins	7.5	8.0	9.8	12.0
PBT margins	4.6	4.4	4.4	8.5
Net Profit margins	3.0	4.4	3.3	6.3
Inventory days	21.9	22.5	24.0	24.0
Debtor days	12.5	15.6	17.0	17.0
Creditor days	22.7	24.4	26.0	25.0
<b>Return Ratios (%)</b>				
RoE	18.0	20.4	10.4	22.9
RoCE	17.0	14.0	11.3	21.6
RoIC	19.1	14.5	11.7	22.5
<b>Valuation Ratios (x)</b>				
P/E	11.3	8.0	14.0	4.9
EV / EBITDA	7.0	7.5	8.1	4.1
EV / Sales	0.5	0.6	0.8	0.5
Market Cap / Revenues	0.3	0.3	0.5	0.3
Price to Book Value	2.0	1.6	1.5	1.1
<b>Solvency Ratios</b>				
Debt / Equity	1.3	1.2	1.1	0.7
Debt/EBITDA	2.8	3.2	3.5	1.6
Current Ratio	1.4	1.6	1.6	1.7
Quick Ratio	0.7	0.9	0.9	0.9

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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