Filatex India (FILIND)

CMP: ₹ 66 | Target: ₹ 85 (29%) | Target Period: 12-15 months | BUY

January 14, 2021

Company update

Higher spreads to keep margin trajectory positive…

Driven by favourable spreads and improved product mix, Filatex India (FIL) reported its highest ever quarterly EBITDA in Q3FY21. Steady increase in demand for downstream textile sector led the company to run at 90% capacity utilisation in yarn segment. Revenue for the quarter fell 2% YoY to ₹ 721.6 crore, with volumes for yarn increasing 3% to 86141 tonnes. Gross spreads increased substantially by 57% YoY to ₹ 25.0/kg, with gross margins expanding ~1000 bps YoY to 30.0%. Commencement of additional DTY capacity also contributed to higher margins. Subsequently, EBITDA margins expanded significantly by 910 bps YoY to 16.7%, with absolute EBITDA more than doubling YoY to ₹ 120.7 crore (EBITDA/kg: ₹ 14 vs. ₹ 6 in Q3FY20). Ensuing PAT came in at ₹ 66.0 crore vs. ₹ 18.6 crore in Q3FY20. We expect margins to stay strong in H2FY21E driven by improved demand scenario (both domestic, export) and capacity constraint due to 5-6% of industry capacity being not functional owing to fire at one of major manufacturer's production facility. The supply shortfall is expected to continue as restarting the manufacturing facility would take four to six quarters that would enable better realisations to other players in the industry.

Higher value added products share, lower power cost to enable strong margins

FIL has enhanced its focus on value added products like FDY, DTY which provide better margins than chips, POY. The share of value added products in Q3FY21 was ~ 85% of revenues. We expect the share of value added products to increase from 65% in FY20 to ~ 82% in FY22E. This would provide a fillip to the margin profile of the company. Also, the company's 30 MW thermal power plant is expected to be operational from April 2021, which is expected to result in annual power cost saving to the tune of ₹ 40-45 crore, thereby further aiding improvement in EBITDA margins. From a longer term perspective, the company is planning to foray into recycled polyester segment that has strong demand globally and commands significantly higher profitability than existing product basket.

Valuation & Outlook

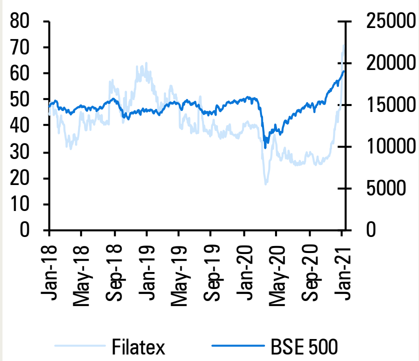
The outlook for the polyester industry appears to be better owing to enhanced government focus on the sector with support for the sector through production linked incentive (PLI) scheme. Also, withdrawal of anti-dumping duty on PTA (key raw material for polyester) from February 2020 is positive for the 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 better-than-expected performance in Q3FY21 and positive industry outlook with improved product margins, we revise upwards our revenue, earnings estimates for FY21E, FY22E, respectively. Hence, we expect RoCE to get enhanced by 1000 bps to 24% in FY20-22E. We reiterate our **BUY** rating on the stock with a revised target price of ₹ 85 (8.0x FY22E EPS, previous target price: ₹ 55).

Filatex India Limited

Particulars

Particulars	Amount
Market Capitalisation (₹ crore)	1,449.9
Total Debt (FY20) (₹ crore)	717.3
Cash (FY20) (₹ crore)	21.8
EV (₹ crore)	2,145.4
52 Week H / L	72 /16
Equity Capital (₹ crore)	43.9
Face Value (₹)	2.0

Price Performance



Risk to our call

- Any sustained surge in RM prices (PTA/MEG) that it is unable to pass on to end users may suppress margin
- Delay in implementation of power project may keep power cost higher than our assumption and lead to lower than expected operating margins

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ICICI Securities – Retail Equity Research

Key Financial Summary

₹ crore	FY18	FY19	FY20	FY21E	FY22E	CAGR (FY20-22E)
Net Sales	1,933.8	2,874.1	2,782.1	2,115.3	3,117.8	5.9%
EBITDA	157.0	216.5	222.2	277.1	417.8	37.1%
Adjusted PAT	59.7	84.8	121.5	124.4	233.1	
P/E (x)	24.0	16.9	11.9	11.7	6.2	
EV/EBITDA (x)	13.5	9.2	9.7	7.5	4.6	
RoCE (%)	12.5	17.0	14.0	16.2	24.0	
RoE (%)	15.5	18.0	20.4	17.3	24.5	

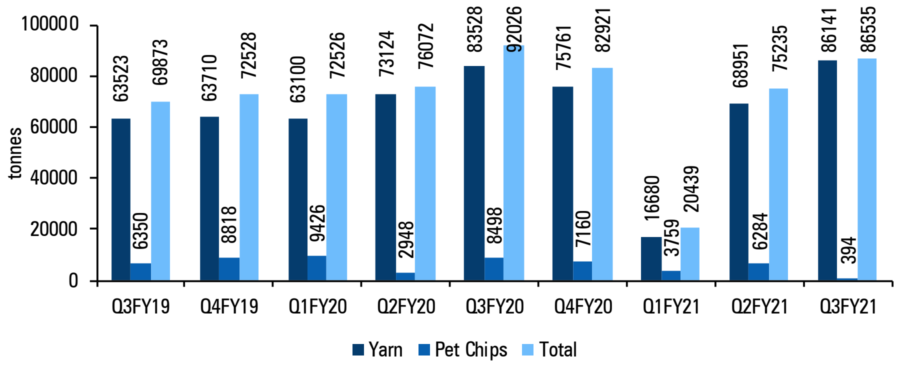
Source: ICICI Direct Research, Company.

Conference Call Highlights

- The management indicated that global demand for value added polyester products was strong. Global yarn demand for polyester is increasing annually by ~ 3-3.5 million tonnes (MT), which is difficult to meet with current capacity and reduced focus in the segment by China. Hence, it provides a long term opportunity for Indian players in the segment
- On the domestic demand front, lower imports of fabrics from China is expected to support demand from domestic downstream industries
- The industry continues to operate amid tight demand-supply with demand currently outstripping supply. The industry supply has been constrained owing to reduction of 5-6% industry manufacturing capacity due to fire at the plant of a major domestic polyester player. The capacity is expected to be restored over next 12-18 months
- Share of value added products in Q3FY21 was at ~85% of total revenue. The company converted most of the raw material to higher margin yarn due to enhanced demand and revenue share of lower margin PET chips was negligible during the quarter
- The company commenced its 1 MW solar power plant at Dahej and 0.4 MW plant in Dadra during Q3FY21. FIL is also implementing a 30 MW thermal power project, which is expected to commence operation from April 2021. The captive thermal power plant is expected to reduce the power cost for FIL and result in annual power cost savings to the tune of ₹ 40-45 crore
- The company is planning a foray into recycled polyester segment with a capex of ~₹ 100-125 crore in FY22-23. FIL is planning to set up the new plant under a subsidiary to avail lower tax rate benefits. Recycled polyester is in short supply globally and is experiencing strong demand from major global brands. The realisations of recycled polyester are higher by ~40-50% compared to normal polyester. It also has a better profitability profile

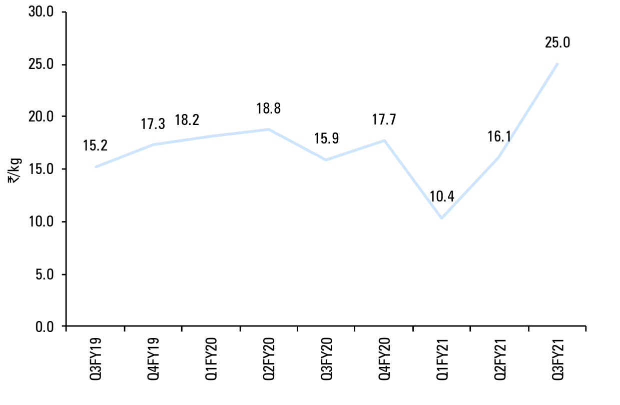
Financial story in charts

Exhibit 1: Volume recovery trend; yarn currently operating at ~90% capacity utilisation



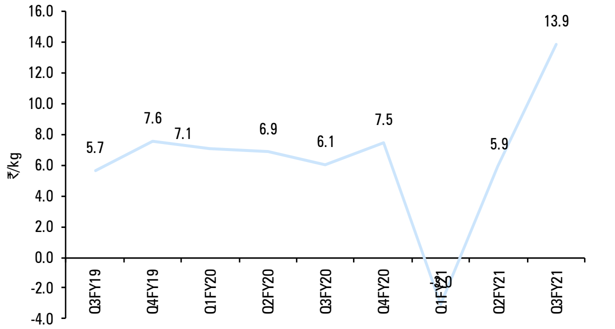
Source: Company, ICICI Direct Research

Exhibit 2: Gross spread trend (quarterly)



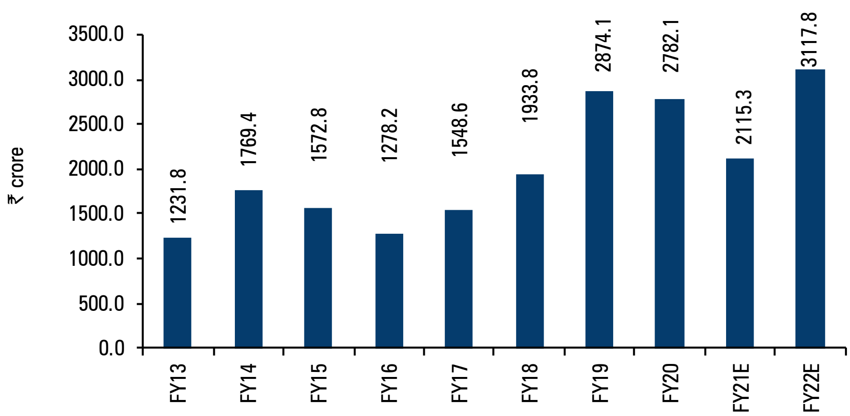
Source: Company, ICICI Direct Research

Exhibit 3: EBITDA/kg trend (quarterly)



Source: Company, ICICI Direct Research

Exhibit 4: Revenue trend



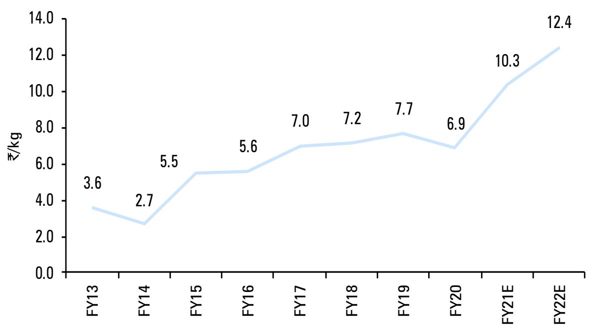
Source: Company, ICICI Direct Research

Exhibit 5: Consistent increase in share of value added products (% of sales)

Product categories	FY18	FY19	FY20	FY21E	FY22E
Polyester chips	11.0	9.2	6.7	2.5	1.9
Polyester POY	21.3	18.4	23.7	16.2	12.9
Polyester DTY (value added products)	**33.9**	**28.5**	**29.9**	**43.6**	**43.3**
Polyester FDY (value added products)	**26.3**	**39.2**	**34.4**	**33.5**	**38.9**
Polypropylene	3.2	2.3	2.4	0.8	0.6
Narrow fabrics	1.2	0.8	0.7	1.2	1.2
Monofilament yarn (discontinued)	0.3	0.0	0.0	0.0	0.0
Other	3.0	1.6	2.2	2.3	1.3

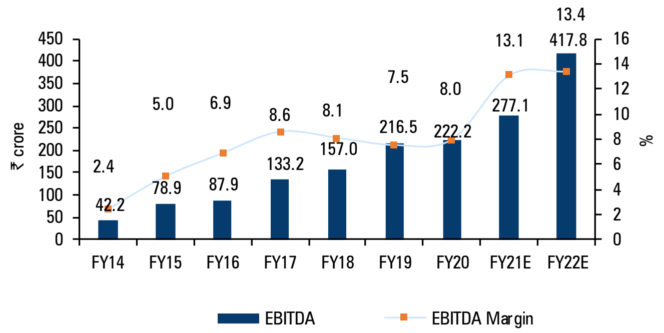
Source: Company, ICICI Direct Research

Exhibit 6: EBITDA/kg trend



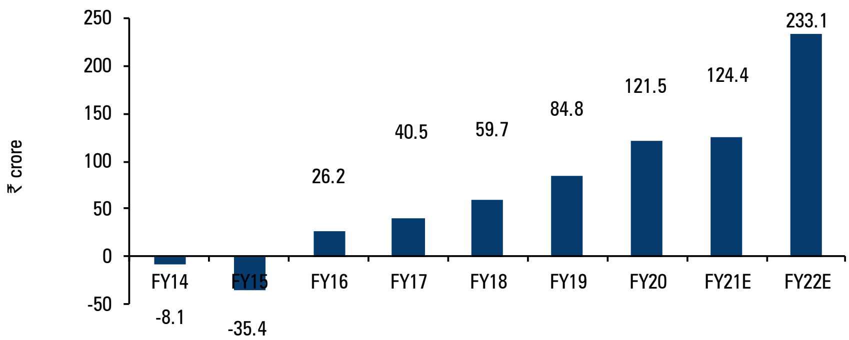
Source: Company, ICICI Direct Research

Exhibit 7: EBITDA and EBITDA margin trend



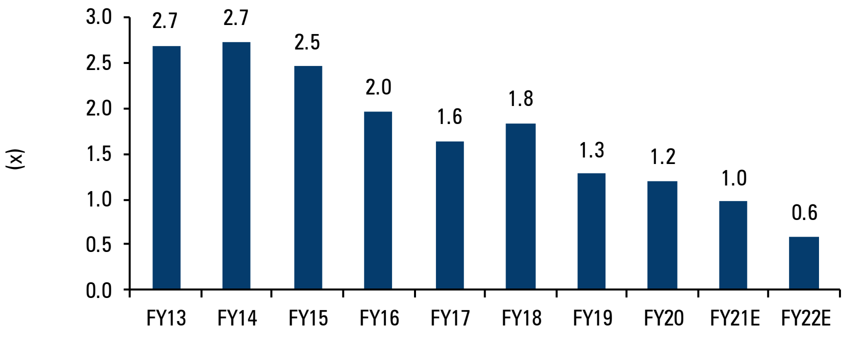
Source: Company, ICICI Direct Research

Exhibit 8: PAT trend



Source: Company, ICICI Direct Research

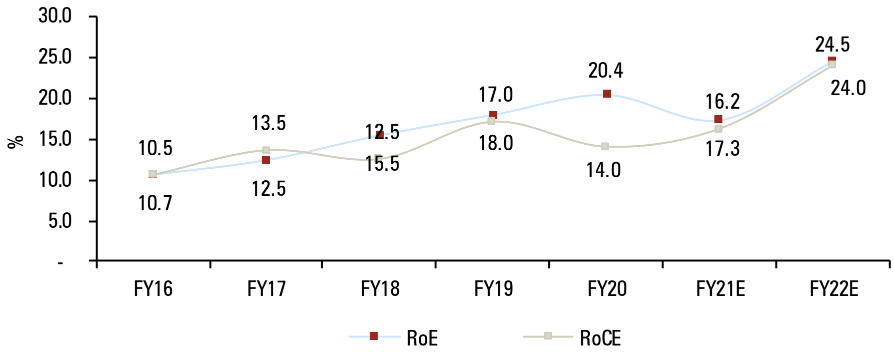
Exhibit 9: Debt/equity ratio trend



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 ₹ 135 crore by FY22E

Exhibit 10: Return ratio trend



Source: Company, ICICI Direct Research

Financial Summary

Exhibit 11: Profit & Loss Statement

(Year-end March)	FY19	FY20	FY21E	FY22E
Net Sales	2,874.1	2,782.1	2,115.3	3,117.8
Growth (%)	48.6	(3.2)	(24.0)	47.4
Total Raw Material Cost	2,364.6	2,214.0	1,565.3	2,338.4
Gross Margins (%)	17.7	20.4	26.0	25.0
Employee Expenses	63.2	74.7	63.5	84.2
Other Expenses	229.8	271.3	209.4	277.5
Total Operating Expenditure	2,657.6	2,559.9	1,838.2	2,700.0
EBITDA	216.5	222.2	277.1	417.8
EBITDA Margin	7.5	8.0	13.1	13.4
Interest	54.7	61.3	62.7	50.6
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	166.3	311.7
Total Tax	46.1	0.5	41.8	78.5
Profit After Tax	84.8	121.5	124.4	233.1

Source: Company, ICICI Direct Research

Exhibit 12: Cash Flow Statement

(Year-end March)	FY19	FY20	FY21E	FY22E
Profit/(Loss) after taxation	84.8	121.5	124.4	233.1
Add: Depreciation	45.0	51.3	59.4	66.1
Net Increase in Current Assets	83.7	-29.9	48.2	-117.5
Net Increase in Current Liabilities	-25.7	-6.8	-32.9	65.4
CF from operating activities	**187.8**	**136.1**	**199.0**	**247.2**
(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
CF from investing activities	**-87.6**	**-250.3**	**-134.5**	**-89.8**
Inc / (Dec) in Equity Capital	0.0	0.4	0.0	0.0
Inc / (Dec) in Loan	-106.8	113.3	-21.1	-134.4
Others	25.2	-21.9	-4.5	6.5
CF from financing activities	**-81.6**	**91.8**	**-25.6**	**-127.8**
Net Cash flow	18.6	-22.3	38.9	29.6
Opening Cash	25.5	44.1	21.8	60.7
Closing Cash	**44.1**	**21.8**	**60.7**	**90.3**

Source: Company, ICICI Direct Research

Exhibit 13: 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	673.3	906.4
Total Shareholders funds	471.6	594.9	717.2	950.4
Total Debt	604.0	717.3	696.2	561.8
Non Current Liabilities	91.8	68.6	66.2	72.8
Source of Funds	**1,167.5**	**1,380.8**	**1,479.7**	**1,585.0**
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	139.1	205.0
Cash	44.2	21.8	60.7	90.3
Debtors	98.7	118.7	98.5	145.2
Loans & Advances & Other CA	82.0	92.9	97.5	102.4
Total Current Assets	397.6	405.0	395.8	542.9
Creditors	179.0	186.0	150.7	213.5
Provisions & Other CL	68.5	54.6	57.0	59.6
Total Current Liabilities	247.5	240.7	207.7	273.1
Net Current Assets	150.1	164.4	188.1	269.8
LT L& A, Other Assets	17.3	75.3	74.9	74.7
Other Assets	0.0	0.0	0.0	0.0
Application of Funds	**1,167.5**	**1,380.8**	**1,479.6**	**1,585.0**

Source: Company, ICICI Direct Research

Exhibit 14: Key Ratios

(Year-end March)	FY19	FY20	FY21E	FY22E
Per share data (₹)				
EPS	3.9	5.5	5.7	10.6
Cash EPS	6.0	7.9	8.4	13.6
BV	21.7	27.1	32.6	43.3
DPS	0.0	0.0	0.0	0.0
Cash Per Share	2.0	1.0	2.8	4.1
Operating Ratios (%)				
EBITDA margins	7.5	8.0	13.1	13.4
PBT margins	4.6	4.4	7.9	10.0
Net Profit margins	3.0	4.4	5.9	7.5
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
Return Ratios (%)	.			
RoE	18.0	20.4	17.3	24.5
RoCE	17.0	14.0	16.2	24.0
RoIC	19.1	14.5	17.1	25.7
Valuation Ratios (x)				
P/E	16.9	11.9	11.7	6.2
EV / EBITDA	9.2	9.7	7.5	4.6
EV / Sales	0.7	0.8	1.0	0.6
Market Cap / Revenues	0.5	0.5	0.7	0.5
Price to Book Value	3.0	2.4	2.0	1.5
Solvency Ratios				
Debt / Equity	1.3	1.2	1.0	0.6
Debt/EBITDA	2.8	3.2	2.5	1.3
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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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

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