

Decent performance in tough operating scenario...

About the stock: Filatex India (FIL) is among the top cost efficient manufacturers of manmade yarns in India with a diversified product portfolio. FIL, over the last decade, has transformed its product mix with enhanced focus on value added products with its share increasing from 10% in FY13 to 78% in FY21.

- Despite being capital intensive in nature, FIL has maintained a capital efficient business model with stringent working capital policy (NWC days: 17) and high asset turn (2.0x), generating healthy RoCE of 22%
- Healthy cash flows have enabled it to reduce debt by ~ ₹ 140 crore (D/E: 0.8x in FY21 vs. 1.2x in FY20). We expect further deleveraging to result in D/E of ~0.2x in FY23E

Q1FY22 Results: The company managed to operate at above 80% utilisation levels and reported reasonable revenue and profitability in a tough operating scenario.

- Revenue de-grew 18% QoQ (3.8x growth YoY) to ₹ 698.9 crore
- Gross spreads, which were significantly higher in Q4FY21, fell 22% QoQ to ₹ 29.3/kg with gross margins down ~560 bps QoQ (up 1380 bps YoY) to 28.4%
- Subsequently, EBITDA margins were down 760 bps QoQ to 14.5% (Q1FY21 -4.3%), with absolute EBITDA down 46% YoY to ₹ 101.1 crore (EBITDA/kg: ₹ 14.9 vs. ₹ 24.3 in Q4FY21)
- Ensuing PAT came in at ₹ 52.1 crore vs. ₹ 118 crore in Q4FY21

What should investors do? The stock price of FIL has appreciated at 50% CAGR in the last five years.

- We continue to remain structurally positive and maintain **BUY** rating

Target Price and Valuation: We value FIL at ₹ 125 i.e. 7x FY23E EPS

Key triggers for future price performance:

- Commissioning of 130 TPD capacity of POY and DTY by Q1FY23 to provide thrust to revenue growth
- Commencement of captive power plant in Q2FY22 to reduce power cost
- We expect share of value added products to increase from 64% in FY20 to 81% in FY23E
- Improved operational performance to lead to RoCE improvement to 32%

Alternate Stock Idea: Apart from FIL, in our textile coverage we also like KPR Mill

- KPR Mill is among select vertically integrated textile players in India that has displayed consistent operating margins with strong return ratios
- BUY with target price of ₹ 2310



Filatex India Limited

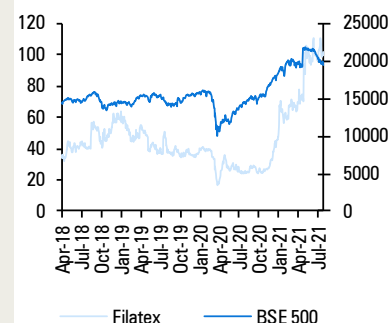
Particulars

Particulars	Amount
Market Capitalisation (₹ crore)	2,196.9
Total Debt (FY21) (₹ crore)	576.0
Cash (FY21) (₹ crore)	36.0
EV (₹ crore)	2,736.8
52 Week H / L	118 / 22
Equity Capital (₹ crore)	44.5
Face Value (₹)	2.0

Shareholding pattern

	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21
Promoter	60.5	60.5	65.2	65.2	65.0
FIL	0	0	0	0	0
DII	5.1	4.5	5.4	4.5	4.5
Others	34.4	35.0	29.4	30.3	30.5

Price Chart



Recent Event & Key risks

- Commencement of power plant
- Key Risk:** (i) Delay in expansion can lower sales (ii) Lower value added share can subdue margins

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Key Financial Summary

Financials	FY19	FY20	FY21	5 year CAGR (FY16-21)	FY22E	FY23E	2 year CAGR (FY21-23E)
Net Sales	2,874.1	2,782.1	2,227.2	11.7%	3,130.9	3,660.0	28.2%
EBITDA	216.5	222.2	347.3	31.6%	510.3	611.2	32.7%
Adjusted PAT	84.8	121.5	165.8	44.6%	300.2	384.9	52.3%
P/E (x)	25.6	18.1	13.3		7.4	5.8	
EV/EBITDA (x)	12.6	13.0	7.9		5.3	4.1	
RoCE (%)	17.0	14.0	22.3		29.1	31.7	
RoE (%)	18.0	20.4	21.7		28.5	27.2	

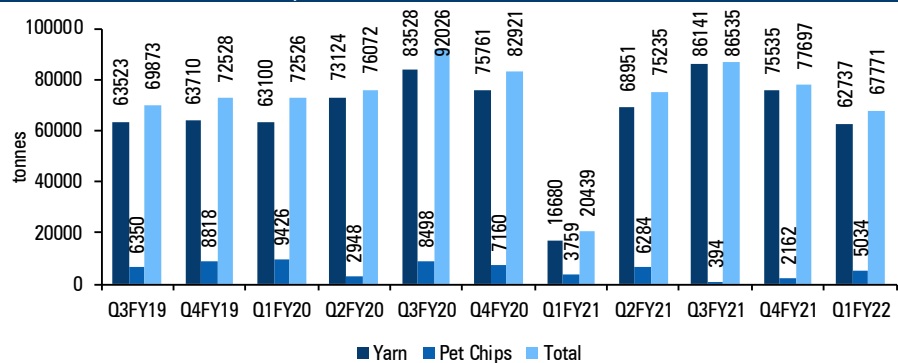
Source: Company, ICICI Direct Research

Key highlights of Q1FY22 Conference call

- Since July 2021, demand for company's products has picked up and the company expects margins to improve from Q3FY21 due to better capacity utilisation
- The company believes demand and profitability of polyester players would continue to sustain over the next few years due to factors like removal of anti-dumping duty on purified terephthalic acid (PTA), sustained demand growth from user industries, lack of significant capacity addition in the last few years and reduction in industry capacity owing to fire at a major manufacturer of polyester and curbs on imports of polyester based products with low or zero duty
- Inventory level for the company during Q1FY22 was elevated as it did not stop production in spite of lower demand due to trade restrictions on account of the pandemic
- On the recycled chips project, the management has done trials with 50 kg per day capacity and is planning to expand the same to 1000 kg per day. The company expects the commercial operation of the recycled polyester chips to begin from H2FY23
- On the global demand scenario for recycled polyester the management indicated that major brands like Zara and Uniqlo have taken a pledge to use recycled polyester for their products. The realisation of recycled polyester products is higher than virgin polyester due to increasing demand globally and insufficient capacities to meet the demand
- The company is increasing the poly-condensation capacity by 50 TPD and putting additional manufacturing capacity for 120 TPD of polyester partially oriented yarn at its Dahej Plant. The capex for the expansion is expected to be around ₹ 130 crore, which is likely to be funded by a foreign currency loan of ₹ 50 crore while the remaining is expected to be funded through internal accruals
- On pledged shares, the management indicated that shares were pledged as secondary collateral for loans taken by the company. The company has already applied for de-pledging the shares and expects the de-pledging to happen by Q3FY22

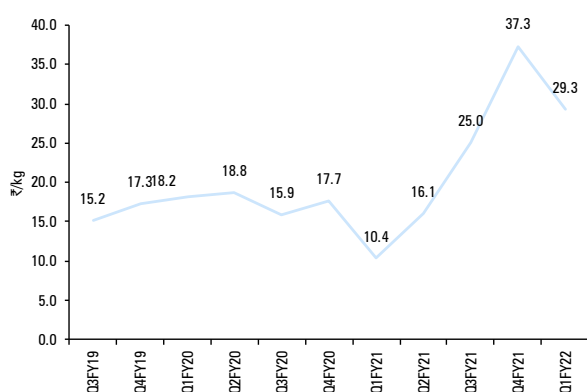
Financial story in charts....

Exhibit 1: Volume recovery trend



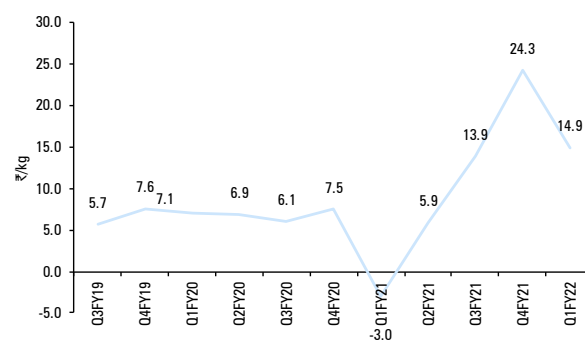
Source: Company, ICICI Direct Research

Exhibit 2: Gross spread trend (quarterly)



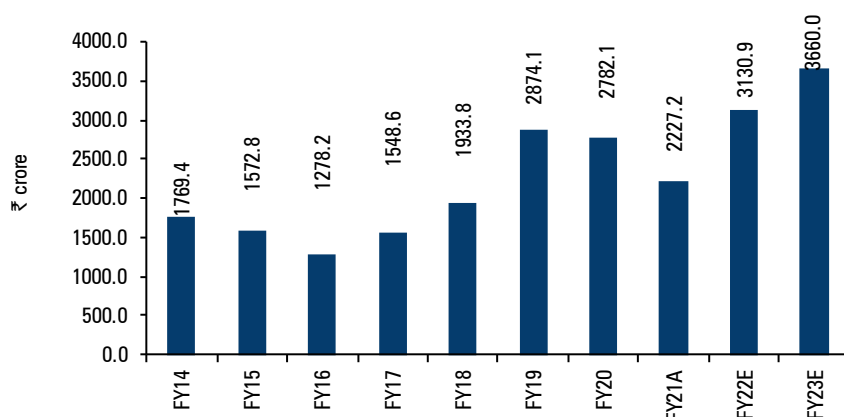
Source: Company, ICICI Direct Research

Exhibit 3: EBITDA/kg trend (quarterly)



Source: Company, ICICI Direct Research

Exhibit 4: Revenue trend

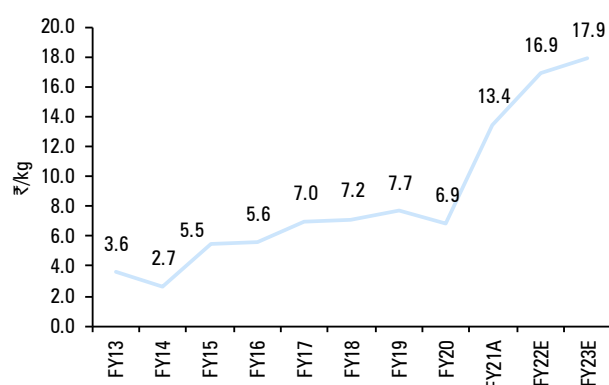


Source: Company, ICICI Direct Research

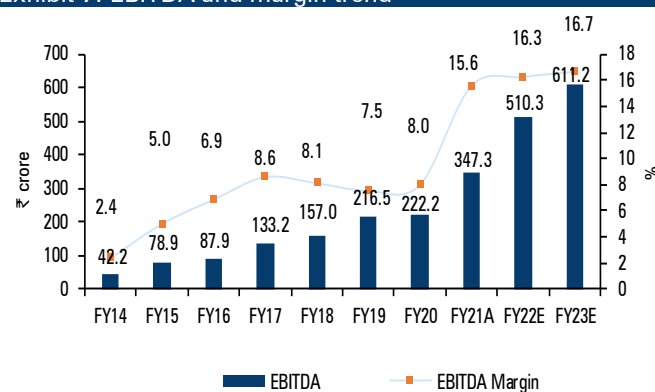
Exhibit 5: Consistent increase in share of value added products

Product categories	FY18	FY19	FY20	FY21A	FY22E	FY23E
Polyester chips	11.0	9.2	6.7	2.8	3.1	2.6
Polyester POY	21.3	18.4	23.7	14.0	14.2	13.3
Polyester DTY (value added products)	33.9	28.5	29.9	41.6	42.0	44.3
Polyester FDY (value added products)	26.3	39.2	34.4	36.5	37.1	34.3
Recycled Chips	-	-	-	-	-	2.6
Polypropylene	3.2	2.3	2.4	1.7	1.3	1.2
Narrow fabrics	1.2	0.8	0.7	0.7	0.7	0.7
Monofilament yarn (discontinued)	0.3	0.0	0.0	0.0	0.0	0.0
Other	3.0	1.6	2.2	2.7	1.6	1.1

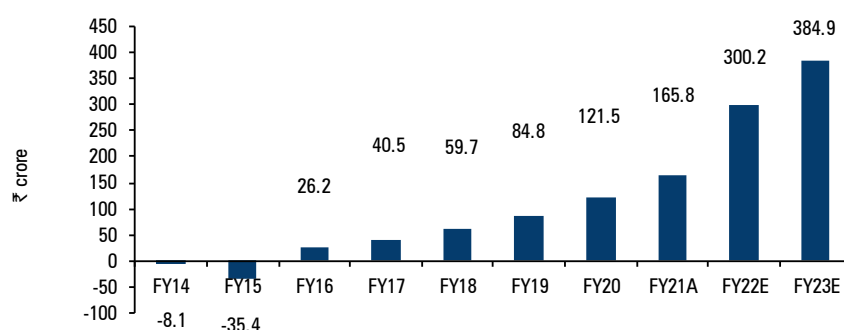
Source: Company, ICICI Direct Research

Exhibit 6: EBITDA/kg trend


Source: Company, ICICI Direct Research

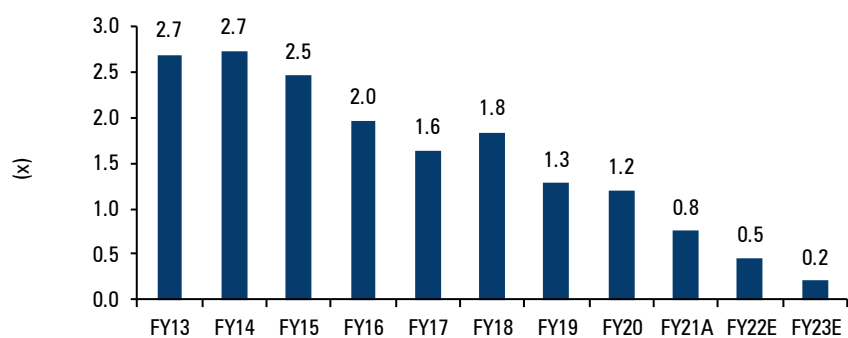
Exhibit 7: EBITDA and margin trend


Source: Company, ICICI Direct Research

Exhibit 8: PAT trend


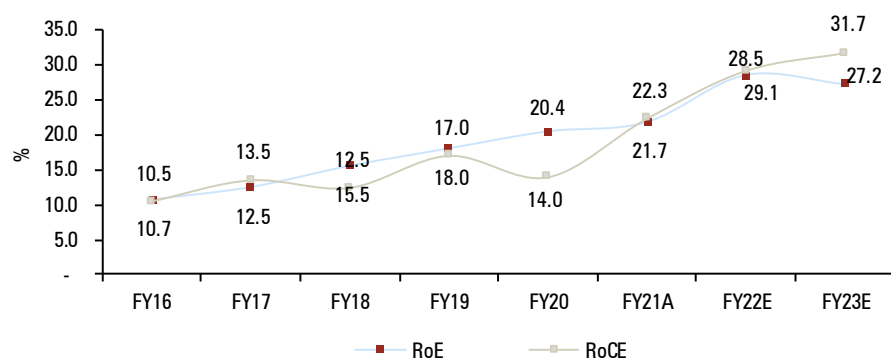
Source: Company, ICICI Direct Research

Exhibit 9: Debt/equity ratio trend



Source: Company, ICICI Direct Research

Exhibit 10: Return ratio trend



Source: Company, ICICI Direct Research

Financial summary

Exhibit 11: Profit and loss statement ₹ crore

(Year-end March)	FY20	FY21A	FY22E	FY23E
Net Sales	2,782.1	2,227.15	3,130.9	3,660.0
Growth (%)	43.9	(19.9)	40.6	16.9
Total Raw Material Cost	2,214.0	1,578.2	2,238.6	2,605.9
Gross Margins (%)	20.4	29.1	28.5	28.8
Employee Expenses	74.7	67.1	84.5	106.1
Other Expenses	271.3	234.5	297.4	336.7
Total Operating Expenditure	2,559.9	1,879.8	2,620.6	3,048.8
EBITDA	222.2	347.3	510.3	611.2
EBITDA Margin	8.0	15.6	16.3	16.7
Interest	61.3	58.8	47.6	28.5
Depreciation	51.3	58.4	70.4	76.8
Other Income	12.4	9.5	9.0	8.5
Exceptional Expense	-	-	-	-
PBT	122.0	239.6	401.3	514.6
Total Tax	0.5	73.8	101.1	129.7
Profit After Tax	121.5	165.8	300.2	384.9

Source: Company, ICICI Direct Research

Exhibit 13: Balance sheet ₹ crore

(Year-end March)	FY20	FY21A	FY22E	FY23E
Equity Capital	43.9	44.2	44.5	44.5
Reserve and Surplus	550.9	718.3	1,009.5	1,371.3
Total Shareholders funds	594.9	762.5	1,054.0	1,415.8
Total Debt	717.3	576.0	486.1	296.4
Non Current Liabilities	68.6	102.6	114.8	128.7
Source of Funds	1,380.8	1,441.1	1,654.9	1,840.8
Gross block	1,268.4	1,305.8	1,550.8	1,775.8
Less: Accum depreciation	153.1	211.4	281.9	358.6
Net Fixed Assets	1,115.3	1,094.4	1,269.0	1,417.2
Capital WIP	25.1	130.1	135.0	140.0
Intangible assets	0.7	0.8	0.8	0.8
Investments	0.0	0.1	-	-
Inventory	171.7	254.4	257.3	300.8
Cash	21.8	36.0	17.6	33.8
Debtors	118.7	121.7	154.4	170.5
Loans & Advances & Other CA	92.9	114.2	119.9	125.9
Total Current Assets	405.0	526.3	549.3	631.0
Creditors	186.0	274.3	257.3	300.8
Provisions & Other CL	54.6	85.1	89.0	93.1
Total Current Liabilities	240.7	359.3	346.3	393.9
Net Current Assets	164.4	167.0	202.9	237.1
LT L& A, Other Assets	75.3	48.7	47.2	45.7
Other Assets	0.0	0.0	0.0	0.0
Application of Funds	1,380.8	1,441.1	1,654.9	1,840.8

Source: Company, ICICI Direct Research

Exhibit 12: Cash flow statement ₹ crore

(Year-end March)	FY20	FY21A	FY22E	FY23E
Profit/(Loss) after taxation	121.5	165.8	300.2	384.9
Add: Depreciation	51.3	58.4	70.4	76.8
Net Increase in Current Assets	-29.9	-107.0	-41.4	-65.5
Net Increase in Current Liabilities	-6.8	118.7	-13.0	47.6
CF from operating activities	136.1	235.8	316.2	443.7
(Inc)/dec in Investments	0.0	0.0	0.1	0.0
(Inc)/dec in Fixed Assets	-192.3	-142.6	-249.9	-230.0
Others	-58.0	26.6	1.5	1.4
CF from investing activities	-250.3	-116.0	-248.3	-228.6
Inc / (Dec) in Equity Capital	0.4	0.2	0.3	0.0
Inc / (Dec) in Loan	113.3	-141.3	-89.9	-189.7
Others	-21.9	35.5	3.2	-9.2
CF from financing activities	91.8	-105.5	-86.4	-198.9
Net Cash flow	-22.3	14.3	-18.4	16.2
Opening Cash	44.1	21.8	36.0	17.6
Closing Cash	21.8	36.1	17.6	33.8

Source: Company, ICICI Direct Research

Exhibit 14: Key ratios ₹ crore

(Year-end March)	FY20	FY21A	FY22E	FY23E
Per share data (₹)				
EPS	5.5	7.5	13.5	17.3
Cash EPS	7.9	10.2	16.7	20.8
BV	27.1	34.5	47.4	63.6
DPS	0.0	0.0	0.4	1.0
Cash Per Share	1.0	1.6	0.8	1.5
Operating Ratios (%)				
EBITDA margins	8.0	15.6	16.3	16.7
PBT margins	6.1	13.0	14.1	14.6
Net Profit margins	4.4	7.4	9.6	10.5
Inventory days	22.5	41.7	30.0	30.0
Debtor days	15.6	19.9	18.0	17.0
Creditor days	24.4	44.9	30.0	30.0
Return Ratios (%)				
RoE	20.4	21.7	28.5	27.2
RoCE	14.0	22.3	29.1	31.7
RoIC	14.5	25.5	32.4	35.3
Valuation Ratios (x)				
P/E	18.1	13.3	7.4	5.8
EV / EBITDA	13.0	7.9	5.3	4.1
EV / Sales	1.0	1.2	0.9	0.7
Market Cap / Revenues	0.8	1.0	0.7	0.6
Price to Book Value	3.7	2.9	2.1	1.6
Solvency Ratios				
Debt / Equity	1.2	0.8	0.5	0.2
Debt/EBITDA	3.2	1.7	1.0	0.5
Current Ratio	1.6	1.4	1.5	1.5
Quick Ratio	0.9	0.7	0.8	0.8

Source: Company, ICICI Direct Research

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Reduce: -15% to -5%;

Sell: <-15%



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