

New DTY capacity on-stream; margins to improve

For Q2FY21, Filatex reported mixed results wherein it saw a revival in volumes to pre-Covid levels (mainly on the back of strong growth in polyester chips) while profitability was impacted negatively. Volumes in Q2FY21 were at 75234 tonnes (Q1FY21: 20439 tonnes), down marginally by 1.1% YoY. On the segmental front, volumes for polyester chips doubled YoY to 6284 tonnes while volumes from yarn segment de-grew 5.7% YoY to 68951 tonnes. Owing to lower chips/yarn prices, blended realisations de-grew 24.5% YoY to ~₹ 67.5/kg. Hence, revenues fell 25% YoY to ₹ 507.8 crore. Owing to unfavourable product mix (polyester chips yields lower margins), spreads fell 14% to ₹ 16.1/kg. Absolute gross profit de-grew 15% YoY to ₹ 121.0 crore. Filatex has rationalised fixed overheads with employee, other expenses falling 12%, 16% YoY to ₹ 16 crore, ₹ 60.4 crore, respectively. Hence, EBITDA de-grew 13% YoY to ₹ 44.5 crore (EBITDA/kg: ₹ 5.9). Higher finance cost (up 2x YoY to ₹ 18.9 crore), lower other income, further impacted PBT growth (down 62% YoY to ₹ 12.7 crore). PAT de-grew 85% YoY to ₹ 9.4 crore (base quarter had deferred tax credit of ₹ 33 crore).

Enhanced share of value added products to bolster margins

The company is seeing an improvement in demand as markets continue to recover post pandemic. In Q2FY21, Filatex received several export enquiries but shortage of containers, high freight rates curtailed its ability to capture incremental demand. In September, yarn capacity utilisation levels reached 90% while challenges in logistics have also reduced. This would enable the company to cater to the increased demand. With commencement of value-added drawn textured yarn (DTY) production from August 31, 2020, we expect increased revenue share from value added products. The improvement in product mix is expected to bolster its margin profile. Both FDY and DTY are seeing strong demand in domestic and international markets. The management indicated that margins are currently trending in early double digits, which bodes well for overall profitability of the company.

Valuation & Outlook

Despite being capital intensive in nature, Filatex has maintained a capital efficient business model with stringent working capital policy (NWC days: 15) and high asset T/O (2.0x), generating healthy RoCE of 14%. While revenue growth is expected to be flattish in FY20-22E (owing to lower realisations), its strategy of focusing on high value added products and reduction in power cost will translate into enhancement in EBITDA margins over medium to longer term. Hence, we pencil in EBITDA CAGR of 18% in FY20-22E. Further, 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 ₹ 50 crore by FY22E (D/E: 0.9x). Subsequently, we expect RoCE to be augmented by 400 bps to 18.0% in FY20-22E. Also the recent announcement of Production Linked Incentive for Man-Made fibre segment by government augurs well for the company. We reiterate our **BUY** rating on the stock with an unchanged target price of ₹ 33 (5.0x FY22E EPS).

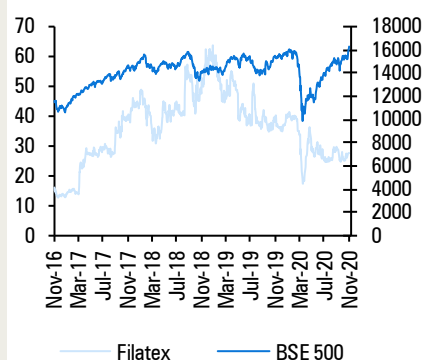


Filatex India Limited

Particulars

Particulars	Amount
Market Capitalisation (₹ crore)	593.1
Total Debt (FY20) (₹ crore)	717.3
Cash (FY20) (₹ crore)	21.8
EV (₹ crore)	1,288.7
52 Week H / L	44 / 16
Equity Capital (₹ crore)	43.9
Face Value (₹)	2.0

Price Chart



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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	1,948.7	2,888.3	1.9%
EBITDA	157.0	216.5	222.2	167.6	309.0	17.9%
Adjusted PAT	59.7	84.8	121.5	38.8	145.5	
P/E (x)	9.8	6.9	4.9	15.3	4.1	
EV/EBITDA (x)	8.1	5.3	5.8	7.8	4.0	
RoCE (%)	12.5	17.0	14.0	8.6	18.0	
RoE (%)	15.5	18.0	20.4	6.1	19.4	

Source: ICICI Direct Research, Company

Financial Summary

Exhibit 1: Profit & Loss Statement

(Year-end March)	FY19	FY20	FY21E	FY22E
Net Sales	2,874.1	2,782.1	1,948.7	2,888.3
Growth (%)	48.6	(3.2)	(30.0)	48.2
Total Raw Material Cost	2,364.6	2,214.0	1,529.7	2,261.5
Gross Margins (%)	17.7	20.4	21.5	21.7
Employee Expenses	63.2	74.7	58.5	78.0
Other Expenses	229.8	271.3	192.9	239.7
Total Operating Expenditure	2,657.6	2,559.9	1,781.1	2,579.3
EBITDA	216.5	222.2	167.6	309.0
EBITDA Margin	7.5	8.0	8.6	10.7
Interest	54.7	61.3	67.5	59.9
Depreciation	45.0	51.3	59.4	65.3
Other Income	11.8	12.4	11.2	10.6
Exceptional Expense	2.3	-	-	-
PBT	131.0	122.0	51.9	194.5
Total Tax	46.1	0.5	13.1	49.0
Profit After Tax	84.8	121.5	38.8	145.5

Source: Company, ICICI Direct Research

Exhibit 2: Cash Flow Statement

(Year-end March)	FY19	FY20	FY21E	FY22E
Profit/(Loss) after taxation	84.8	121.5	38.8	145.5
Add: Depreciation	45.0	51.3	59.4	65.3
Net Increase in Current Assets	83.7	-29.9	66.9	-110.4
Net Increase in Current Liabilities	-25.7	-6.8	-44.8	61.6
CF from operating activities	187.8	136.1	120.3	161.9
(Inc)/dec in Investments	-0.1	0.0	0.0	0.0
(Inc)/dec in Fixed Assets	-93.7	-192.3	-134.9	-70.0
Others	6.1	-58.0	0.4	0.2
CF from investing activities	-87.6	-250.3	-134.5	-69.8
Inc / (Dec) in Equity Capital	0.0	0.4	0.0	0.0
Inc / (Dec) in Loan	-106.8	113.3	32.9	-84.4
Others	25.2	-21.9	-4.5	-22.6
CF from financing activities	-81.6	91.8	28.4	-106.9
Net Cash flow	18.6	-22.3	14.2	-14.8
Opening Cash	25.5	44.1	21.8	36.0
Closing Cash	44.1	21.8	36.0	21.1

Source: Company, ICICI Direct Research

Exhibit 3: 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	587.7	704.1
Total Shareholders funds	471.6	594.9	631.7	748.0
Total Debt	604.0	717.3	750.2	665.8
Non Current Liabilities	91.8	68.6	66.2	72.8
Source of Funds	1,167.5	1,380.8	1,448.1	1,486.6
Gross block	1,031.3	1,268.4	1,413.4	1,483.4
Less: Accum depreciation	103.4	153.1	212.4	277.7
Net Fixed Assets	927.9	1,115.3	1,200.9	1,205.7
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	128.1	189.9
Cash	44.2	21.8	36.0	21.1
Debtors	98.7	118.7	90.8	134.5
Loans & Advances & Other CA	82.0	92.9	97.5	102.4
Total Current Assets	397.6	405.0	352.4	447.9
Creditors	179.0	186.0	138.8	197.8
Provisions & Other CL	68.5	54.6	57.0	59.6
Total Current Liabilities	247.5	240.7	195.8	257.4
Net Current Assets	150.1	164.4	156.5	190.5
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	1,448.1	1,486.6

Source: Company, ICICI Direct Research

Exhibit 4: Key Ratios

(Year-end March)	FY19	FY20	FY21E	FY22E
Per share data (₹)				
EPS	3.9	5.5	1.8	6.6
Cash EPS	6.0	7.9	4.5	9.6
BV	21.7	27.1	28.8	34.1
DPS	0.0	0.0	0.0	1.3
Cash Per Share	2.0	1.0	1.6	1.0
Operating Ratios (%)				
EBITDA margins	7.5	8.0	8.6	10.7
PBT margins	4.6	4.4	2.7	6.7
Net Profit margins	3.0	4.4	2.0	5.0
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	6.1	19.4
RoCE	17.0	14.0	8.6	18.0
RoIC	19.1	14.5	9.0	18.5
Valuation Ratios (x)				
P/E	6.9	4.9	15.3	4.1
EV / EBITDA	5.3	5.8	7.8	4.0
EV / Sales	0.4	0.5	0.7	0.4
Market Cap / Revenues	0.2	0.2	0.3	0.2
Price to Book Value	1.2	1.0	0.9	0.8
Solvency Ratios				
Debt / Equity	1.3	1.2	1.2	0.9
Debt/EBITDA	2.8	3.2	4.5	2.2
Current Ratio	1.4	1.6	1.6	1.7
Quick Ratio	0.7	0.9	1.0	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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