Filatex India (FILIND)

CMP: ₹ 73 | Target: ₹ 90 (23%) | Target Period: 12-15 months | **BUY**

April 24, 2021

All-time high spreads aid strong margin performance

The manmade yarn market has been characterised by strong demand and supply constraint within the industry, which has been beneficial for Filatex. After a strong performance in Q3, Filatex India (FIL) reported yet another robust quarter, driven by sustained enhancement in yarn spreads. Revenue for the quarter grew 18% QoQ (28% YoY) to ₹ 852.8 crore, mainly driven by blended realisations increasing 32% QoQ (36.4% YoY). Gross spreads (including inventory gain) increased substantially by 49% QoQ (111% YoY) to ₹ 37.3/kg, with gross margins expanding ~400 bps QoQ (1200 bps YoY) to 30.0%. Commencement of additional DTY capacity has also contributed to higher margins. Subsequently, EBITDA margins expanded significantly by 550 bps QoQ (1280 bps YoY) to 22.1%, with absolute EBITDA increasing by 57% YoY to ₹ 188.7 crore (EBITDA/kg: ₹ 24.3 vs. ₹ 14 in Q3FY21). Ensuing PAT came in at ₹ 118.5 crore vs. ₹ 66 crore in Q3FY21. We expect EBITDA margins for FY22E-FY23E to stay at 15-16% driven by robust demand in both domestic, export markets and capacity constraint due to 5-6% of industry capacity being not functional owing to fire at one of major manufacturer's production facility (expected to restart only by mid CY22). However, in the near term, demand may be negatively impacted owing to re-imposition of lockdown in certain states. Also the management indicated the spreads have declined in April but they expect demand to pick up once lockdown restrictions are removed while spreads should also start trending upwards.

Capex to focus on capacity expansion of high margin products

FIL is planning a capex of ₹ 360 crore in FY22E-23E. In FY22, it is planning a capex of ~ ₹ 175 crore and aiming to add 100 TPD capacity of POY and DTY (expected to be commissioned in Q1FY23). Further, it is planning a capex of ₹ 130-150 crore in FY23 to add 100 TPD of recycled chips (that have significantly higher realisation and margin than the normal polyester chips). The company is constantly focussing on enhancing the share of value added products as they yield higher margin. We expect the share of value added products to increase from 64% in FY20 to ~ 82% in FY23E, which would provide a fillip to the margin profile of the company.

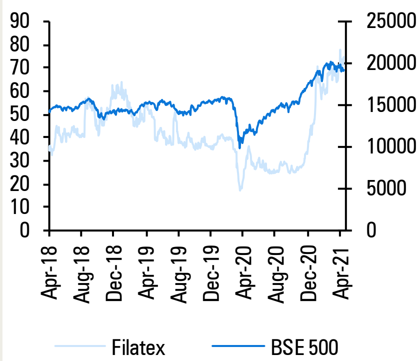
Valuation & Outlook

Enhanced government support for polyester sector through production linked incentive (PLI) scheme and withdrawal of anti-dumping duty on PTA (raw material for polyester) augur well for the profitable growth of polyester players. The strong performance in FY21 has enabled the company to generate healthy cash flows, which has 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. Factoring in better-than-expected earnings performance in H2FY21 and improved product margins, we revise upwards our earnings estimates for FY22E and introduce FY23E estimates. Subsequently, we expect RoCE to get enhanced by 600 bps to 28% over FY21-23E. We reiterate our **BUY** recommendation on the stock with a revised target price of ₹ 90 (6.0x FY23E EPS, earlier target price: ₹ 85).

Particulars

Particulars	Amount
Market Capitalisation (₹ crore)	1,603.7
Total Debt (FY21) (₹ crore)	576.0
Cash (FY21) (₹ crore)	36.0
EV (₹ crore)	2,143.7
52 Week H / L	81 /22
Equity Capital (₹ crore)	43.9
Face Value (₹)	2.0

Price Performance



Risk to our call

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

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Key Financial Summary

₹ crore	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY21-23E)
Net Sales	2,874.1	2,782.1	2,227.2	2,987.6	3,361.6	22.9%
EBITDA	216.5	222.2	347.3	460.1	517.7	22.1%
Adjusted PAT	84.8	121.5	165.8	268.7	320.3	39.0%
P/E (x)	18.7	13.2	9.7	6.0	5.0	
EV/EBITDA (x)	9.9	10.3	6.2	4.4	3.6	
RoCE (%)	17.0	14.0	22.3	27.3	28.4	
RoE (%)	18.0	20.4	21.7	26.3	24.2	

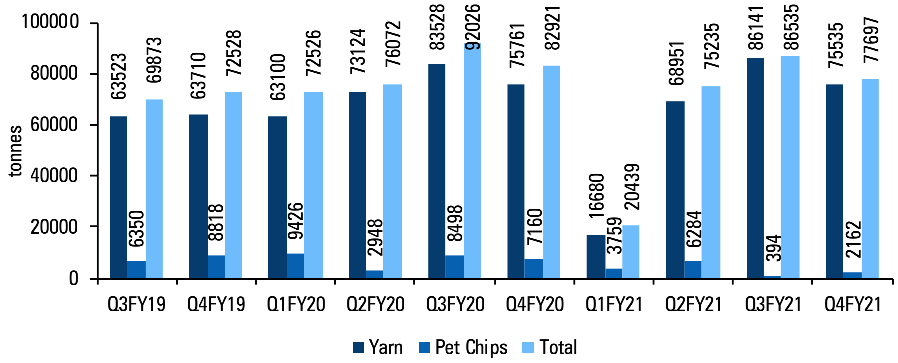
Source: ICICI Direct Research, Company.

Conference Call Highlights

- The management indicated that it could not utilise the export opportunity fully due to shipping issues and high freight rates. The global demand for value added polyester products was strong. Global yarn demand for polyester is increasing annually by ~ 3-3.5 million tonnes, which is difficult to meet with current capacity and reduced focus in the segment by China. Hence, it provides long term opportunity for Indian players in the segment
- The second wave of the pandemic has led to a decline in demand to a certain extent. The management believes that if the lockdown/restrictions are for a short period then demand should pick up pace post lifting of restrictions
- On the spreads front, the management said the spread in Q4FY21 was higher due to inventory gains. However, on a sustainable basis, it expects spreads to remain near Q3FY21 levels
- Volume share of value added products in Q4FY21 was at ~83%. The company converted most of the raw material to higher margin yarn due to enhanced demand and volume share of lower margin PET chips was at ~3% during the quarter
- The company had 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 has been delayed due to pandemic related restrictions and is expected to commence operation from May 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 ~ ₹ 250 crore in FY23-24. In the first phase, the company is planning to set up a 100 TPD plant for recycled chips, which would entail a capex of ~ ₹ 130 crore. In the second phase to be executed in FY24, the company is planning to add recycled polyester yarn capacity with a capex of ~ ₹ 120 crore. The company 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

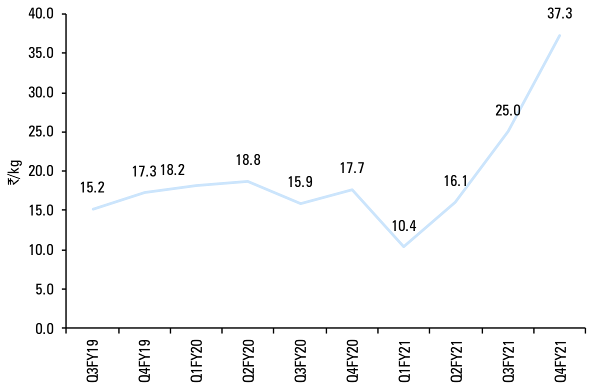
Financial story in charts

Exhibit 1: Volume recovery trend



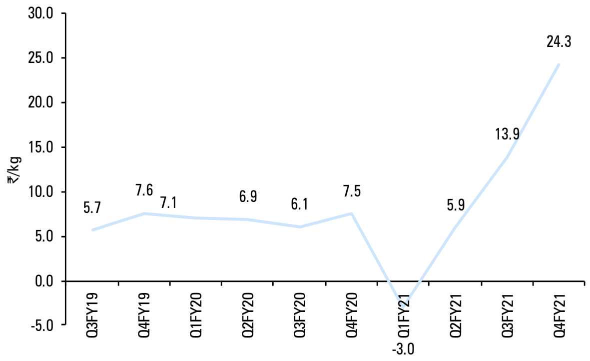
Source: Company, ICICI Direct Research

Exhibit 2: Gross spread trend (quarterly)



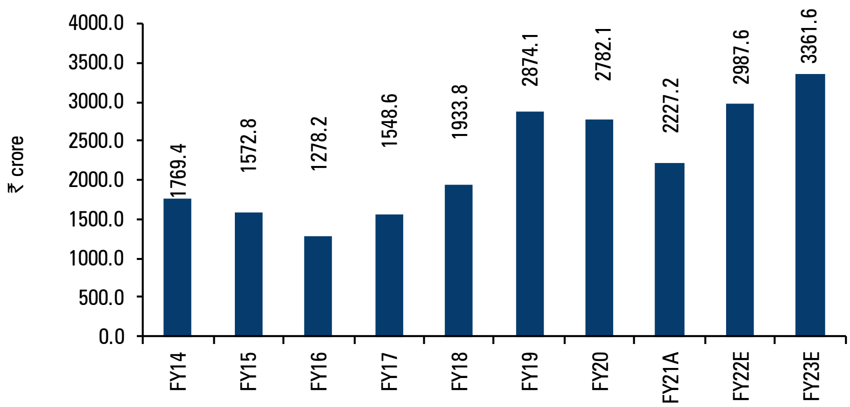
Source: Company, ICICI Direct Research

Exhibit 3: EBITDA/kg trend (quarterly)



Source: Company, ICICI Direct Research

Exhibit 4: Revenue trend



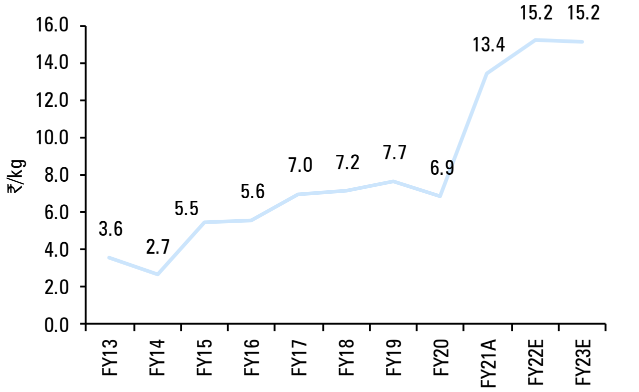
Source: Company, ICICI Direct Research

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	2.6	2.3
Polyester POY	21.3	18.4	23.7	14.0	13.9	12.8
Polyester DTY (value added products)	**33.9**	**28.5**	**29.9**	**41.6**	**42.0**	**44.2**
Polyester FDY (value added products)	**26.3**	**39.2**	**34.4**	**36.5**	**37.8**	**35.2**
Recycled Chips	**-**	**-**	**-**	**-**	**-**	**2.4**
Polypropylene	3.2	2.3	2.4	1.7	1.4	1.3
Narrow fabrics	1.2	0.8	0.7	0.7	0.8	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	1.2

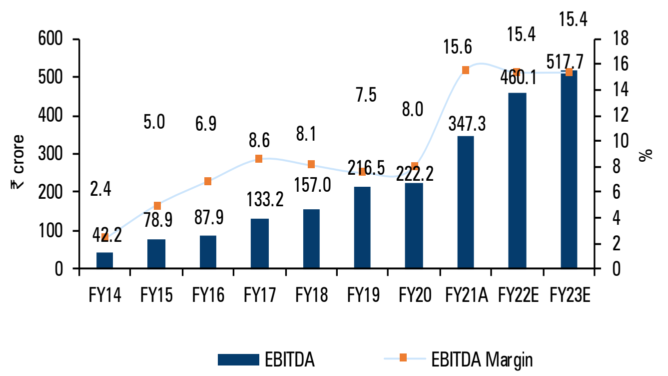
Source: Company, ICICI Direct Research

Exhibit 6: EBITDA/kg trend



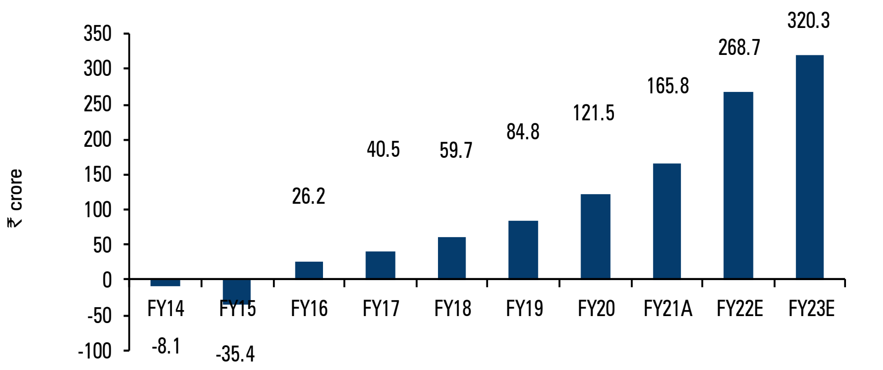
Source: Company, ICICI Direct Research

Exhibit 7: EBITDA and margin trend



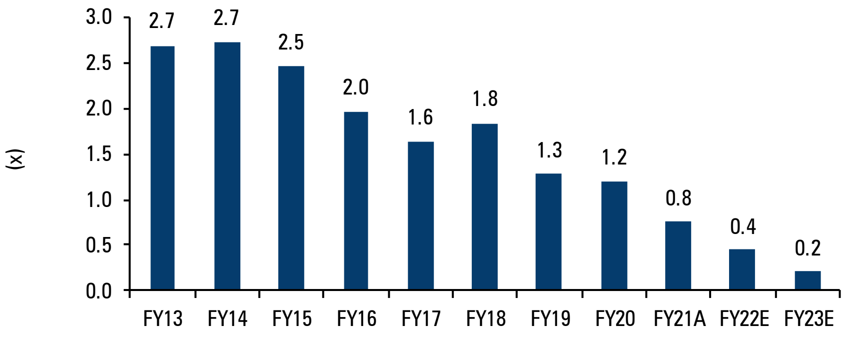
Source: Company, ICICI Direct Research

Exhibit 8: PAT trend



Source: Company, ICICI Direct Research

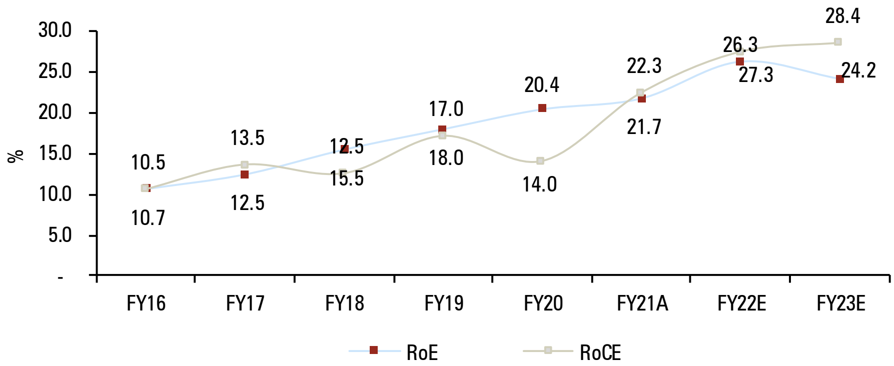
Exhibit 9: Debt/equity ratio trend



Source: Company, ICICI Direct Research

Robust profitability expected to generate healthy free cash flows, which will aid in reducing debt by ~ ₹ 300 crore in FY22-23E

Exhibit 10: Return ratio trend



Source: Company, ICICI Direct Research

Financial Summary

Exhibit 11: Profit & Loss Statement

(Year-end March)	FY20	FY21A	FY22E	FY23E
Net Sales	2,782.1	2,227.15	2,987.6	3,361.6
Growth (%)	43.9	(19.9)	34.1	12.5
Total Raw Material Cost	2,214.0	1,578.2	2,180.9	2,450.6
Gross Margins (%)	20.4	29.1	27.0	27.1
Employee Expenses	74.7	67.1	80.7	94.1
Other Expenses	271.3	234.5	265.9	299.2
Total Operating Expenditure	2,559.9	1,879.8	2,527.5	2,844.0
EBITDA	222.2	347.3	460.1	517.7
EBITDA Margin	8.0	15.6	15.4	15.4
Interest	61.3	58.8	44.7	26.5
Depreciation	51.3	58.4	65.2	71.5
Other Income	12.4	9.5	9.0	8.5
Exceptional Expense	-	-	-	-
PBT	122.0	239.6	359.2	428.2
Total Tax	0.5	73.8	90.5	107.9
Profit After Tax	121.5	165.8	268.7	320.3

Source: Company, ICICI Direct Research

Exhibit 12: Cash Flow Statement

(Year-end March)	FY20	FY21A	FY22E	FY23E
Profit/(Loss) after taxation	121.5	165.8	268.7	320.3
Add: Depreciation	51.3	58.4	65.2	71.5
Net Increase in Current Assets	-29.9	-107.0	-22.5	-46.0
Net Increase in Current Liabilities	-6.8	118.7	-24.8	34.8
CF from operating activities	**136.1**	**235.8**	**286.6**	**380.7**
(Inc)/dec in Investments	0.0	0.0	0.1	0.0
(Inc)/dec in Fixed Assets	-192.3	-142.6	-179.9	-180.0
Others	-58.0	26.6	1.5	1.4
CF from investing activities	**-250.3**	**-116.0**	**-178.3**	**-178.6**
Inc / (Dec) in Equity Capital	0.4	0.2	0.0	0.0
Inc / (Dec) in Loan	113.3	-141.3	-119.9	-179.7
Others	-21.9	35.5	4.1	-5.3
CF from financing activities	**91.8**	**-105.5**	**-115.8**	**-185.0**
Net Cash flow	-22.3	14.3	-7.5	17.1
Opening Cash	44.1	21.8	36.0	28.6
Closing Cash	**21.8**	**36.1**	**28.6**	**45.7**

Source: Company, ICICI Direct Research

Exhibit 13: Balance Sheet

(Year-end March)	FY20	FY21A	FY22E	FY23E
Equity Capital	43.9	44.2	44.2	44.2
Reserve and Surplus	550.9	718.3	978.9	1,280.0
Total Shareholders funds	594.9	762.5	1,023.1	1,324.1
Total Debt	717.3	576.0	456.1	276.4
Non Current Liabilities	68.6	102.6	114.8	128.7
Source of Funds	**1,380.8**	**1,441.1**	**1,594.0**	**1,729.2**
Gross block	1,268.4	1,305.8	1,435.8	1,745.8
Less: Accum depreciation	153.1	211.4	276.6	348.2
Net Fixed Assets	1,115.3	1,094.4	1,159.2	1,397.7
Capital WIP	25.1	130.1	180.0	50.0
Intangible assets	0.7	0.8	0.8	0.8
Investments	0.0	0.1	-	-
Inventory	171.7	254.4	245.6	276.3
Cash	21.8	36.0	28.6	45.7
Debtors	118.7	121.7	147.3	156.6
Loans & Advances & Other CA	92.9	114.2	119.9	125.9
Total Current Assets	405.0	526.3	541.4	604.4
Creditors	186.0	274.3	245.6	276.3
Provisions & Other CL	54.6	85.1	89.0	93.1
Total Current Liabilities	240.7	359.3	334.5	369.4
Net Current Assets	164.4	167.0	206.8	235.0
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**	**1,594.0**	**1,729.2**

Source: Company, ICICI Direct Research

Exhibit 14: Key Ratios

(Year-end March)	FY20	FY21A	FY22E	FY23E
Per share data (₹)				
EPS	5.5	7.5	12.2	14.5
Cash EPS	7.9	10.2	15.1	17.7
BV	27.1	34.5	46.3	60.0
DPS	0.0	0.0	0.4	0.9
Cash Per Share	1.0	1.6	1.3	2.1
Operating Ratios (%)				
EBITDA margins	8.0	15.6	15.4	15.4
PBT margins	6.1	13.0	13.2	13.3
Net Profit margins	4.4	7.4	9.0	9.5
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	26.3	24.2
RoCE	14.0	22.3	27.3	28.4
RoIC	14.5	25.5	31.8	30.2
Valuation Ratios (x)				
P/E	13.2	9.7	6.0	5.0
EV / EBITDA	10.3	6.2	4.4	3.6
EV / Sales	0.8	1.0	0.7	0.5
Market Cap / Revenues	0.6	0.7	0.5	0.5
Price to Book Value	2.7	2.1	1.6	1.2
Solvency Ratios				
Debt / Equity	1.2	0.8	0.4	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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