Raj Rayon Industries

Operator: Good afternoon, everyone. This is the second day of the Bharat Connect Conference. I welcome you all to the call of Raj Rayon Industries Ltd. Today, from the management side, we have Mr. Sandeep Agarwal, Whole-time Director and CFO of the company. Before I hand over to the management, I will lay out the flow of the event. We will start with brief introductory remarks by the management and then move on to the Q&A round. Any participant who would like to ask questions can raise their hand or put them in the chat box. First, we will take questions from the participants who have raised their hands and then move on to the chat box. If time permits at the end, we will take questions that I have received from clients who were not able to participate. With this, I now hand over the call to the management. Over to you, sir.

Sandeep Agarwal – Whole-time Director & CFO: Okay, good evening, everyone. Raj Rayon Industries, I do not know how much you may know about it, but Raj Rayon Industries is basically a turnaround story. We took this over 3 years ago, and in 3 years we have been able to add significant value by way of production, top line, and bottom line.

Last year, as you have seen, we had reached a certain capacity. This year, we added capacity during the brief shutdown in April, and we are now running at 400 tons per day. We have also announced an expansion plan under which we expect to increase the capacity to 700 tons per day.

This is the basic plan. In the next 2 years, we will reach 700 tons per day, and as we proceed, value addition will also increase over the next 2 years. This is the basic overall plan for Raj Rayon Industries. In the coming 2 years, we are planning to double the capacity again.

Operator: Thank you, sir, for the introduction. Now we will start the question-and-answer round. Any participant who would like to ask a question can raise their hand or put it in the chat box. First, we will take questions from the participants who have raised their hands, and then we will move on to the chat box. Sir, we have a few questions from clients who were not able to participate. In Q1 FY26, how much of the revenue growth came from additional volume, better realization, and product mix?

Sandeep Agarwal – Whole-time Director & CFO: For {? FY26 ?}, yes, most of the {? FY26 ?}. Ever since we started in FY24, FY25, and FY26, the volume has steadily increased, as has the value addition. We are progressing in all directions. First is volume, and second is value addition.

As we add capital equipment, it is also for value addition, vertical integration, and value-added products. Therefore, it is a mix of all 3 things. Even this year, we added approximately 50 tons per day of capacity, and that will be reflected in Q1, as you can see. It will also be reflected in Q2.

The capacity that has been added, along with the value addition, will take time to become established. Over a period of time, the first impact is on the top line, followed by the bottom line, and then value addition contributes further to the bottom line. This is the sequence of events that has been taking place over the past 3 years, and it will continue over the next 2-3 years.

Operator: Okay, sir, got it. Sir, we have our first question from Nitin Dharmawat. Please go ahead.

Nitin Dharmawat: Hello, am I audible?

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Sandeep Agarwal – Whole-time Director & CFO: Yes, yes, you are audible, Nitin.

Nitin Dharmawat: We have a plan to spend 650 crores, as I understand. What will be the source of funding for this? Will it be through debt or by raising additional money? Our promoter stake is also very high right now, so we will have to bring it down. Are we going through some preferential allotment, a follow-on public offering, or something like that? What is the plan, if you can elaborate on that, and how much dilution are we going to undertake?

Sandeep Agarwal – Whole-time Director & CFO: Yes, you are absolutely right that the promoter stake in the company is high, and we have to reduce it to 75%. That will also be part of the funding. We will be bringing the funds into the company. Out of the 650 crores, we plan to raise primary capital of 350 crores, and the balance will be a combination of debt and internal accruals.

Nitin Dharmawat: How much additional debt are we going to raise?

Sandeep Agarwal – Whole-time Director & CFO: We are planning to raise approximately 150-200 crores, and the balance will be funded through internal accruals.

Nitin Dharmawat: When is this equity dilution likely to happen? Do you have any timelines in mind?

Sandeep Agarwal – Whole-time Director & CFO: We are planning to do this dilution over the next 6 months.

Nitin Dharmawat: I also wanted to understand the related-party transactions. Since we are very closely integrated with our parent organization, how much are the related-party transactions between these 2 organizations, and how will this develop going forward when we are supplying to other similar companies? Will there be challenges considering that these 2 organizations might also be competing with each other?

Sandeep Agarwal – Whole-time Director & CFO: No, we will not be competing with each other. That is one thing. The second thing is related-party transactions—

Nitin Dharmawat: I am not talking about competing with each other, but about our sister organization and our customers.

Sandeep Agarwal – Whole-time Director & CFO: When we are talking about SVG, SVG is actually a market leader in polyester athleisure, athletic wear, and various other products. In that area, there is competition from people who follow SVG or who replicate its products. We see that competition as normal, and there is no concern from that angle as far as the marketing of SVG is concerned.

As far as the transactions between SVG and Raj Rayon Industries are concerned, the quantity is actually very small because Raj Rayon Industries has high-volume production. Raj Rayon Industries is producing 400 tons per day, while SVG is producing 40 tons per day. Of that 40 tons, perhaps 25-30 tons are being purchased from Raj Rayon Industries in-house.

These transactions are conducted on an arm's-length basis, but they are very small in comparison with the revenue and production capacity of Raj Rayon Industries. Going forward, we also anticipate that not more than 15% of Raj Rayon Industries' production will go into SVG.

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Nitin Dharmawat: Got it. Sir, my next question is about the impact of crude prices and how they are affecting the margins of Raj Rayon Industries. What is our ability to pass on the increase in prices to our clients?

Sandeep Agarwal – Whole-time Director & CFO: As of now, I can say that the price increase has been fully passed on to the clients. However, in a scenario where demand declines, there can be a point at which, at a certain price, demand plateaus and then starts declining.

Until today, we have seen that the price increase has been completely absorbed and passed on to the consumer. Going forward, if this continues, we feel that there could be pressure on margins. However, we expect that a solution will emerge very soon, at least as far as crude prices are concerned.

We also feel that if the capacities for upstream paraxylene that are starting in China improve, then the spread of our suppliers will reduce, which means that we will again get some relief in terms of raw material pricing. Therefore, we do feel that the situation is dynamic right now, but until now we have been able to completely pass on the increase.

Raj Rayon Industries is completely insulated because it is doing value addition at multiple stages—from polymer to chips, chips to POY, POY to DTY, and further down the line through SVG. There is a great deal of insulation in terms of sales.

Nitin Dharmawat: Since SVG has a very good name in the market, as you rightly said, and is a leader in its space, while Raj Rayon Industries is comparatively a new business for us, where do you see Raj Rayon Industries in the next 5 years considering that we are still at a nascent stage? We are not leaders in this space. Where does the management see Raj Rayon Industries going forward, and how are we going to attain leadership in this space as well?

Sandeep Agarwal – Whole-time Director & CFO: You are right in saying that. However, I will tell you that leadership does not come from anything other than the management's attitude. SVG has a culture and attitude of providing textile solutions. I cannot summarize it so quickly and tell you why they are leaders, but they are in a leadership position because of much more than just machinery and finances.

It is because of an attitude and a way of doing business. If we follow that culture at Raj Rayon Industries, we will definitely become market leaders, perhaps not in volume but in terms of value-added products.

In terms of what we provide to our customers, even today Raj Rayon Industries has some of the best products. If you know the market or are in the market, you will see that it is a well-established and sought-after product. If you name a product, Raj Rayon Industries is among the top producers of that product.

In terms of value addition, the kind of products we provide and the basket of products we offer are comparable to the best in the industry. We provide a highly value-added and customized basket of products, just like SVG. SVG also provides highly customized solutions to customers.

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They are not simply producing textiles and selling textiles. They ask customers what they need and provide textile solutions to very high-value-added clients. That is the reason, and that is the attitude we follow at Raj Rayon Industries, which is why we are leaders.

Operator: Thank you, sir. We have our next question from Udit Segal. Please go ahead.

Udit Segal: Yes, sir.

Udit Segal: Hi, sir. Am I audible?

Management: Yes, yes, absolutely.

Udit Segal: You were speaking about spreads and how you were able to pass them on. Can you let us know what the macro picture looks like? I know that in April the spreads had compressed, and then in June-July they returned to earlier levels. Now, with the latest crisis and PTA-MEG prices increasing again, how are the spreads, and how is demand in the market?

Management: You are right. In April-May, spreads had declined because what happens is that in a market that suddenly rises, such as when the war started and prices began increasing, there were certain people, including some of us, who had inventories. They understood that this was very temporary.

In April, they thought it was temporary. Therefore, there was a lot of profit booking because when prices suddenly increase by 40%, your raw material inventory and finished-goods inventory both increase in value by nearly 40-50%. Everybody thinks that this is not real, so they start booking profits and short-selling.

Therefore, spreads compressed during that period. In April and May, spreads started declining because many people started selling cheaply, thinking that the crisis was over. However, that reversed the second time when we thought that the war was over and all prices crashed, including crude prices.

Again, the situation was completely volatile. When prices started increasing the next time, nobody had any stock. Everybody had reduced their inventories, including raw materials and finished goods, to the bare minimum because nobody wanted to speculate or take the risk of falling crude prices, falling raw material prices, and declining value.

They short-sold, and the next time, when there was no stock, there was no discrepancy in raw material prices for any industry player. All 13-14 players converting PTA-MEG into POY had no stock, and everybody passed the increase on to the consumer.

That is why, in the second wave, the entire increase in raw material prices was passed on to the consumer. I call it a wave because that is what it was. From June, July, August, and September, we were successful in passing on this price increase directly to the consumer because it coincided with an increase in demand.

Demand increased because textiles generally pick up just before Diwali, which is the delivery season. Exports were also doing well. September and October are periods of peak shipments,

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particularly during September. Therefore, demand picked up along with raw material prices, and we were able to pass on the increase.

Udit Segal: Generally, until what time do you expect this season to continue? Do you expect it to continue until March, or could it fizzle out earlier?

Management: It follows a parabola. During Diwali, there is a 15-day lull. Just before and just after Diwali, we see a 15-day dip, and then demand rises again because there is another festival, followed by the wedding season.

Textile demand is seasonal, but it has very small dips because people plan ahead. We are now expecting winter demand to pick up, and wedding-season demand is also going to pick up. Just before Diwali, from Dussehra onward, preparations for the wedding season will begin.

Therefore, it will continue until March. Then we will see a small dip because it is the year-end, and people will review their finances and reduce them to the bare minimum. After that, demand will pick up again in preparation for another season.

Udit Segal: Got it. So, if I discuss the matter, I think most players today must be making EBITDA margins of somewhere between 8% and 11%.

Management: I do not know what the results will show, but September is definitely going to be better for most of the industry. I expect the September quarter to be better in terms of both top line and bottom line. It is going to be considerably better than Q1.

Udit Segal: I think you will get both volume and realization growth, correct?

Management: Yes, definitely. I see both volume and realization growth. In terms of the top line, the top line is something that we have simply passed on.

If the price was 100 and we are now selling at 140, if you are saying that I will earn 10 out of 100, that is fine. However, if you are saying that the percentage will also increase along with the price being passed on, that will be somewhat difficult.

Udit Segal: Got it. Earlier, there was talk that India is deficient in MEG and PTA, and that all these plants are coming up. I think that after this, raw material prices should come down. Some of your competitors in the market were discussing this. What is your view on that?

Management: India is currently importing about 2.4 million tonnes of PTA. MEG is not really in short supply; India can produce more MEG. It is just a matter of choosing what to produce, but India can produce as much MEG as it requires.

PTA, however, is seriously short by 2.4 million tonnes. With 2 planned capacities—one by GAIL and one by Paradip IOC—India is expected to become self-sufficient. They are supposed to start in the next 6 months.

GAIL is quite late. It has already started, but it does not have enough feedstock, which is why it has not been able to scale up. After GAIL and IOC Paradip begin operations, India will be self-sufficient, at least by 2027.

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Until now, pricing in India has been based on import-parity prices. Since India is short by 2.4 million tonnes and imports the product, domestic producers have priced it at import-parity prices, which are slightly higher than international prices.

When we say that India will become self-sufficient, imports will create a great deal of disruption. Domestic producers will try to price the product at levels that make imports impossible because nobody should want to import. If the price is equal to the import price, they may still consider importing, but if it is slightly lower than the import price, nobody will want to import.

Therefore, domestic producers will obviously want the price to be at a level at which nobody wants to import. We expect our spreads to increase by 1%, 1.5%, or 2% because, considering the size of these suppliers, I believe they will have good strategies in place to deal with the surplus.

I also expect a price war, followed by a shakeout and consolidation of capacities in favor of newer and more efficient plants. Older and slightly {? haggard ?} plants may have to retire for these same reasons.

Therefore, we do see our margins improving slightly because of this. I am not going to say 5%, but we do expect our spreads to increase by 1-2%.

Udit Segal: What about the polyester side? What expansions are planned? I think Sanatan has just come online, and Reliance is also planning some expansion. How do you see the demand-supply situation on that side?

Management: In polyester, there is no significant capacity addition after Sanatan. There has been a small amount of capacity addition, consisting of very organic capacity increases and upgrades, but no substantial expansion is visible in polyester over the next 1-2 years.

Apart from IOC, which has announced a 1,000-ton-per-day plant in Odisha, I do not see any major capacity coming up in the next 3 years. Reliance had planned an expansion, but I do not know whether it is actually happening. Reliance's capacity is also not really going to come up in the next 2-3 years.

The CAGR of the polyester industry required at least 700 tons per day of new capacity to be added every year. I believe that over the next 2-3 years, India will be short by 2,000 tonnes, which is close to the volume that India is currently importing.

Management: I do feel that India will become self-sufficient in downstream production capacities as well.

Udit Segal: So, you do not see any risk of major oversupply in polyester as of now?

Management: No, not at all. You have to look at the CAGR. The trailing CAGR was 5-6%, for 2023, 2024, and 2025, for example. Last year's CAGR was 7-8%.

Going forward, if you look at the global scenario, there are 2-3 macro factors to consider. First, China and India are the only major suppliers to the world. Naturally, one would say that India and China should be at least 50-50 in terms of population, country size, or capacity. However, China is

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10 times the size of India as of today.

If the world is looking for an alternative to China, India should have at least 50% of China's capacity. India therefore has to grow 10 times. China has stopped growing because it expanded aggressively over the past 10 years, and it has now reached a point where it will need to plateau.

Over the next 10 years, only India will expand in terms of capacity because polyester is the only fiber that can meet the needs of the world's increasing population, not just India's population.

All the other alternatives, such as cotton, have limitations. In India, cotton accounts for almost 50% of consumption, but cotton production does not increase. The only fiber that can grow is polyester.

Over the next few years, we believe that all demand growth will be fulfilled by polyester. The biggest incumbent, or the country that can fulfill this demand after China, is India. Therefore, I see significant expansion in terms of both capacity and demand for polyester in India.

There is no other fiber that can increase in the same way. You cannot increase viscose, linen, or cotton, and you cannot increase any other fiber.

Udit Segal: Got it, sir. I would also like your view on the use of PET bottles in making recycled polyester, or RPSF, and on some players trying to undertake textile-to-textile recycling, which they say will sell at a premium. I wanted to understand your outlook on both these technologies.

Management: Two things are happening. One is recycling. Recycling is going to be an integral part of what I would call responsible manufacturing. It is not just recycling; it is responsible manufacturing.

When we talk about water, we have to be net zero. If you want to be net zero, you have to undertake responsible manufacturing and recycling. You have to have a circular economy.

Whether it is bottle-to-textile-to-textile, bottle-to-bottle, or biodegradable material, there will always be a certain percentage of demand. Ultimately, our oceans need to be cleared of these bottles, and our dump yards need to stop receiving textiles so that we can start recycling them.

Panipat is the biggest textile recycler. You may not know this, but I am sure you know that Panipat recycles every type of fiber. It makes blankets and mixed fabrics out of those materials and sells them in the market. That recycling is already happening, and it is circular.

The entire process is now going to become non-blended recycling. You have to remove the polyester from a blended textile and then recycle only the polyester. That is also a major challenge when you are spending more energy separating intimately blended fabrics, removing the spandex, removing the viscose, and then recycling the material.

Panipat simply takes a fabric, makes fiber out of it again, and then makes a blanket out of it. You can wear it, and there is no challenge in that. They make it in a darker color, so there is no challenge.

Recycling is already happening. If you are trying to recycle polyester only, you need technologies in which you remelt the bottles and convert them. This is done through a glycolysis process.

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Essentially, you recreate the polyester mother batch and then undertake the same polymerization process to create another fiber.

That is again responsible manufacturing, which everyone is trying to undertake in their own way. There is bottle-to-fabric, bottle-to-bottle, textile-to-textile, and now even nylon-to-nylon recycling. Various methods of responsible manufacturing are going to become the norm of tomorrow, at least among brands.

Udit Segal: Got it. Do we have any plans for that sort of setup?

Management: Yes, there are many things that we are planning. SVG is among the pioneers of recycling in India. I can tell you that SVG itself has recycled more than 300 million bottles to date.

The process is being tracked using a blockchain method. If you know what blockchain is, there is an international agency that certifies and identifies the person who collected the bottle or retrieved it from the oceans, dump yards, or wherever it was found.

The bottle is then converted into fiber. The process records who created it, how it was washed, how it was converted into flakes, how the flakes were converted into chips, how the chips were converted into fiber, how that fiber was converted into fabric, and how the fabric was converted into garments, shoes, or other products.

The entire cycle is mapped. We have been doing this for the past 2 decades. I can tell you that this has not been easy, but it has now become the norm.

Most brands are definitely doing it. SVG and Raj Rayon Industries are also planning to undertake recycling. SVG has a certain demand that Raj Rayon Industries is going to fulfill through the recycled segment.

There is also significant demand for recycled products as brands start stating in their prospectuses that they are nearly 100% recycled. For example, Adidas is 100% completely recycled across all its products. Most of its products are 100% recycled, including shoes, shoelaces, T-shirts, trousers, and everything else. This is currently sourced from ocean bottles.

In the future, as the supply of bottles is exhausted, there will be a crisis. However, new bottle plants are being created. These bottles will not go into dump yards; they will return to circulation.

As the government makes this more compulsory, there will be a requirement for most bottlers to use 20% or 30% recycled material. Similarly, there will be a certain norm for textiles in the future.

Responsible manufacturing is a way of life. Raj Rayon Industries is planning a recycled and responsible manufacturing facility with zero net emissions and zero net waste. We are going to control the waste and use the waste itself in our remanufacturing process so that we generate less waste.

Raj Rayon Industries will also generate less waste and fewer emissions. More or less, the target is to have a net-zero-waste plant.

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Udit Segal: Got it, sir. With respect to the fact that our parent concern is in garments, are we exporters as well? How have you seen the India-UK FTA and India-EU FTA shaping demand? Is there any increase in queries or in the pipeline?

Management: Yes, there are definitely a lot of queries in the pipeline. As India becomes self-sufficient and moves toward its own pricing rather than import-parity pricing, exports will start increasing.

In addition to the 2.4 million tonnes I mentioned, there is a 3.2 million-tonne plant that is expected to start at the end of 2027. Reliance's plant at Dahej is expected to start at the end of 2027. It has been indicated that it may also start at the beginning of 2028.

There will be 3.2 million tonnes of excess raw material in India. India's demand cannot increase by that much, so the excess demand will be fulfilled through exports.

That is the biggest bet that raw material suppliers are taking right now: once prices fall to a certain level, India will suddenly export a significant amount. Apart from the domestic CAGR of 7-8% or 10%, we expect export demand to suddenly become exponential.

That will create a major opportunity for India as a polyester exporter, a market in which China is currently the clear leader. China is at 10, while we are at just 1 or perhaps less than that—20 times India's export level.

Udit Segal: Generally, what is the price difference between India and China? Suppose you are quoting an export price and China is quoting an export price, meaning, how much would that be?

Management: There are 2-3 factors. When China quotes a price to any market, one factor is government support, and the second is its own cost structure, including lower raw material prices.

I see a price difference of nearly 2-4%. We lose orders or give up international demand because we consistently face a 2-4% price difference.

Udit Segal: So, do you believe that because of raw material availability and lower raw material prices in India, you can bridge that gap?

Management: India is generally in short supply. My production is therefore being sold at a price where export demand is 2-4%, or perhaps 2%, lower than the domestic price.

Forget about anything else. If I am getting better realization in the domestic market, I do not want to export simply because exporting sounds attractive. I want to earn more. If I am getting better realization in the domestic market, which is in short supply, I would rather sell in the domestic market.

Over a period of time, exports will start at the same price or at a slightly higher price. This means that the domestic market will have to match export prices. Going forward, the domestic market will also pay 1-2% more.

As export demand is added to our customer base, there will be better-quality production. As of today, export demand is not there; let us simply say that it is not there. However, when it is added

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to our prospective customers at the same price, there will of course be better-quality production.

Once you become an exporter, you have to maintain certain standards, so the quality of Indian products will improve. Newer polyester plants will be able to cater to export demand. Those plants will take the lion's share of exports.

This is where Raj Rayon Industries will come in because it is a very new plant. All its capacities are post-modern. That is why we believe that after 1 year there will be a sudden jump in exports.

Raj Rayon Industries will also benefit because it is producing a lot of value-added products, and value-added products have strong export demand. We are currently selling domestically because we are getting better realization. However, over a period of time, the first products to become exportable will be the value-added products because China does not customize as much as Indian companies do.

We believe that in 2027, by the end of 2027, we will see a significant start to exports, apart from the UK FTA and all the other FTAs when they come into play.

Fabric exporters will also start demanding better products. The UK FTA will help textile exports. Raj Rayon Industries is producing yarn, so the FTA will not directly affect Raj Rayon Industries when we are talking about yarn. However, as we start producing fabrics and our customers also start exporting to these markets, there will definitely be much better demand and capacity utilization.

Udit Segal: The whole ecosystem will benefit, essentially, starting from—

Management: Yes, of course.

Udit Segal: What are the plans? Are we planning to go for a QIP or a rights issue, or how exactly are we planning to bring down the promoter stake, increase it, and proceed with the new expansion?

Management: Our target, as you said, is to raise growth capital. Our target is to raise primary capital and bring the money into the company. We are currently discussing the method with the merchant bankers.

Once we finalize the method, we will put it forward. However, our target is to raise primary capital, with the money coming into the company. It will therefore be either a QIP, a rights issue, or something similar.

Udit Segal: Thank you so much, sir, for patiently answering all the questions. Best of luck, sir.

Management: Thank you.

Operator: Thank you, sir. Due to time constraints, we will take that as the last question. I would like to thank the management on behalf of Arihant Capital for sharing insights about the company and for sharing their time. If participants have any further questions, they can get in touch with the team at Arihant Capital. Thank you, sir.

Management: Thank you so much. Thank you, everybody. If anybody wants to get in touch, they can contact Arihant Capital. They can also get in touch with SGA Investor Relations, SGA IR.

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Management: Yes, SGA is taking care of our investor relations. You can also contact them and Arihant Capital.

Operator: Sure. Thank you, sir. Thank you, everyone.

Management: Thank you.

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