Indo Rama Synthetics (India) Ltd.

Analyst Meet

Quarter 3 Results
&
Opportunities in the Quota Free Regime

Mumbai

20 Jan. 2005

The Meet Highlights

1. Indian Textiles Industry – Dawn of a new era

2. Update on Expansion Project

3. Indo Rama Performance
   - Financial Performance
   - Operating Performance

We opined ….
Long back

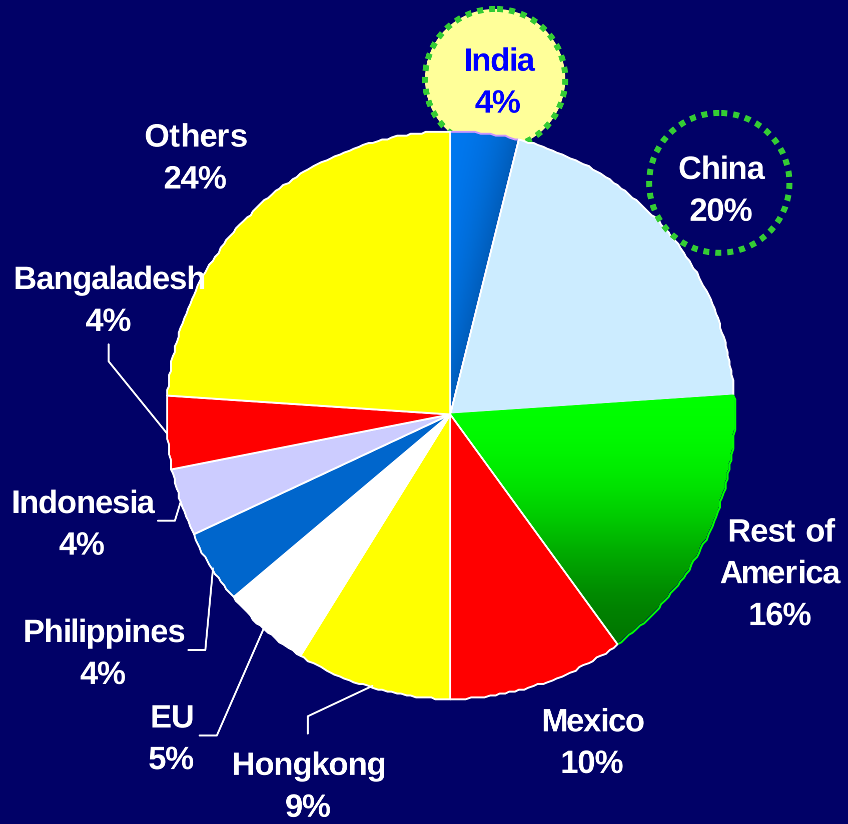
Textile Industry enters

QUOTA FREE REGIME…..

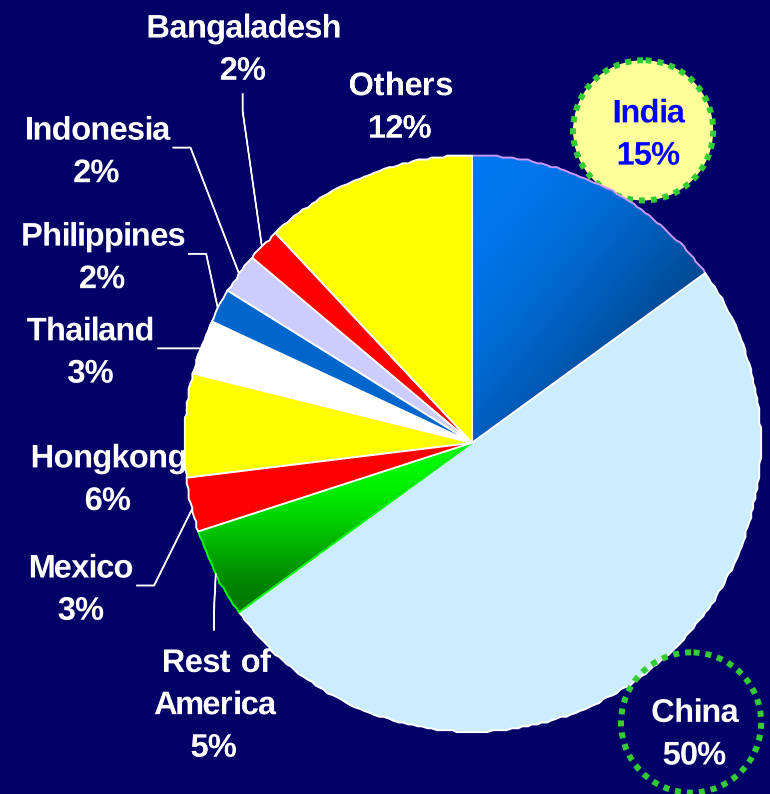
Opinion turned into reality

Huge Opportunity tapping the door…

Share of Clothing Imports into US [Before Quota Elimination (%)]

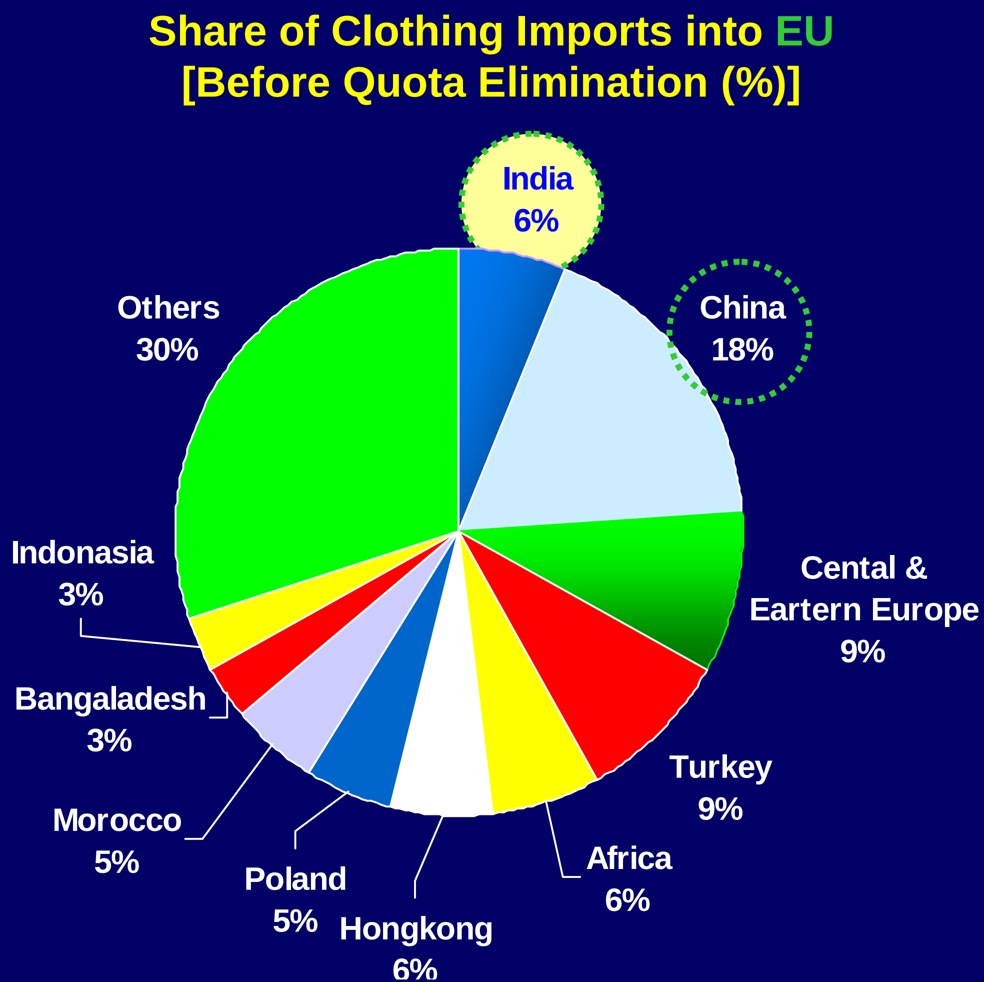


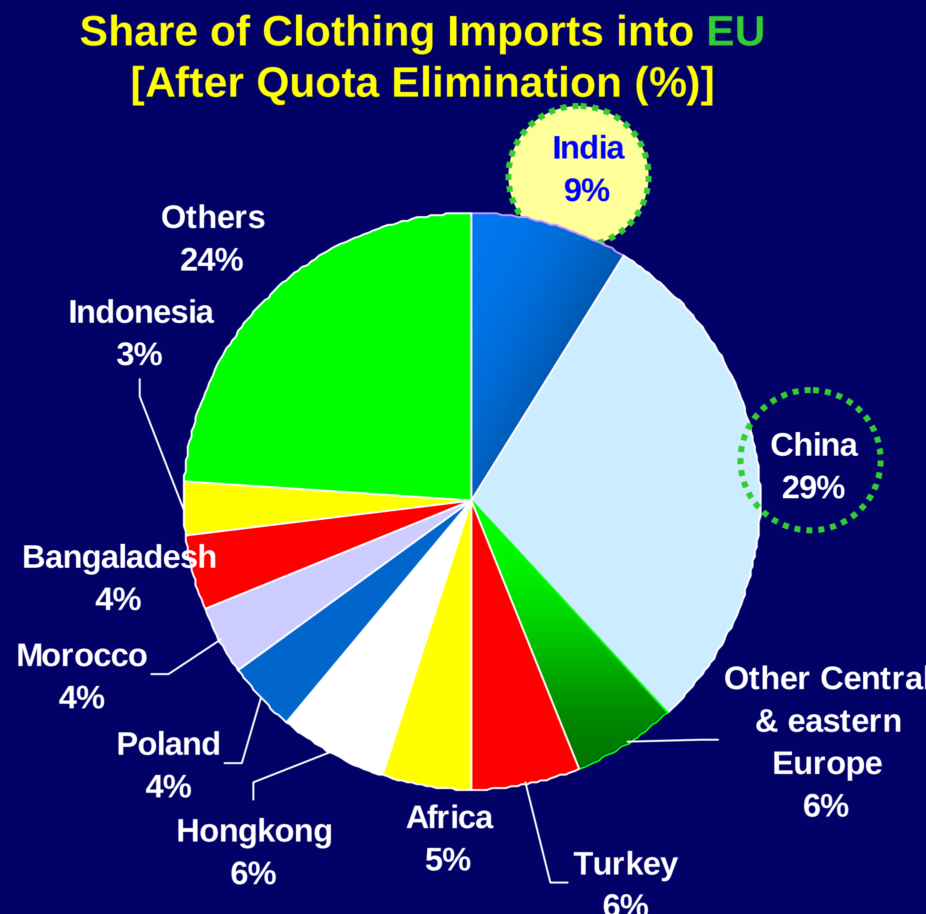
Share of Clothing Imports into US [After Quota Elimination (%)]



Source : WTO, Morgan Stanley

Huge Opportunity tapping the door…





Source : WTO, Morgan Stanley

Export to increase by $36 bn to $50 bn by 2010

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Why should India Succeed ?

Competitive Factors	China	India	Thailand	Mexico
Labour • Cost (USD/hr) • Supply size • Skill • Design expertise	 1.08 Huge High High	 0.75 Huge High High	 1.30 Small High Very High	 1.70 Large Low Low
Textile articles	All kind of fabrics	Yarns & fabrics	Tarns & fabrics	Knit & woven fabrics
Apparel products	Most garments	Mainly home textiles, wide range of apparels	Intricate designed garments, fashion apparels	Basic garments
Size of domestic market	Huge	Huge	Small	Large
Delivery time (days)	30	30	30	4

Source : EIU, Goldman Sachs

Textile Industry is in Limelight…

GOI committed to promote the Industry

Global retailers reposing confidence

Key players are in expansion mode

India well poised to capture the huge opportunity

Consolidation process initiated

Key players sweating the existing asset to fullest

China facing some restraints i.e. India's gain

Post Quota Removal – New business dynamics setting in ….

- Global retailers rationalising their supplier base – switching to India
- Supply chain efficiencies to enhance – customers to streamline logistic issues of quota era
- Competition to intensify in post quota world – survival of the mightiest
- Changing world trade dynamics - offer huge opportunities for cost competitive players

Key Challenges Post WTO ….

- Capital investments required in capacity building for :
  - upstream (i.e. PX, PTA, MEG, MMF) and
  - downstream (i.e. Spinning, Weaving, Knitting, Processing & Garmenting)

  of ~USD 34 billion to capitalise on the opportunity

- Prices envisaged to drop- margins under pressure

- Infrastructure bottlenecks & labour may limit potential- Maintaining growth momentum……

Business operating model will change from

Margin → VOLUME

Impact of Price drop to be marginalised…

Drivers of Pressure on Margins

- Increased competition
- Rupee appreciation
- Drop in DEPB rates

Impact on manufacturers to be partially offset by

Drivers mitigating the Pressure

- Elimination of quota costs
- Better fund management & treasury operations
- Improved efficiencies / productivity

☞ Maximum pricing pressure on Garments

☞ Fabrics yet to see significant pricing pressure

☞ Fibres long way to go

Why Polyester Industry should Grow in India ?

- India's exports traditionally cotton dominated mainly due to :
  - Availability of Quota for cotton textiles - quotas allotted based on past performance which was cotton dominated
  - Non-availability of MMF
  - Uncompetitive prices of MMF due to unfavorable duty structure
- Cotton alone cannot fulfill the total envisaged demand- production limitations
- Polyester increasingly becoming uncompetitive in Taiwan & Korea - capacity to shut down in quota free regime & shift to China & India

More polyester required to meet export targets

Why Polyester Industry should Grow in India?

- Polyester competitively produced here because India has
  - Adequate availability of Raw Materials *(Px, PTA, MEG)*
  - World scale & world-class production facilities
  - Competitive conversion costs

- Favorable demand drivers
  - Consistent GDP growth & urbanisation
  - Value added & innovative new product developments
  - Technological developments

Volatile Period for Polyester Industry

Hit on the Top-line

Decreasing cotton price, combined with duty cuts, made cotton yarn cheaper

Resulted in

Poor FG off-take

Hit on the Bottom-line

Sharp increase in PTA / MEG costs pushed up polyester production cost

No custom duty relief in PTA, MEG & Furnace oil

Government granted excise exemption to cotton textiles while polyester continues to have high excise duty

Resulted in

Increased cost of production – All time low margins

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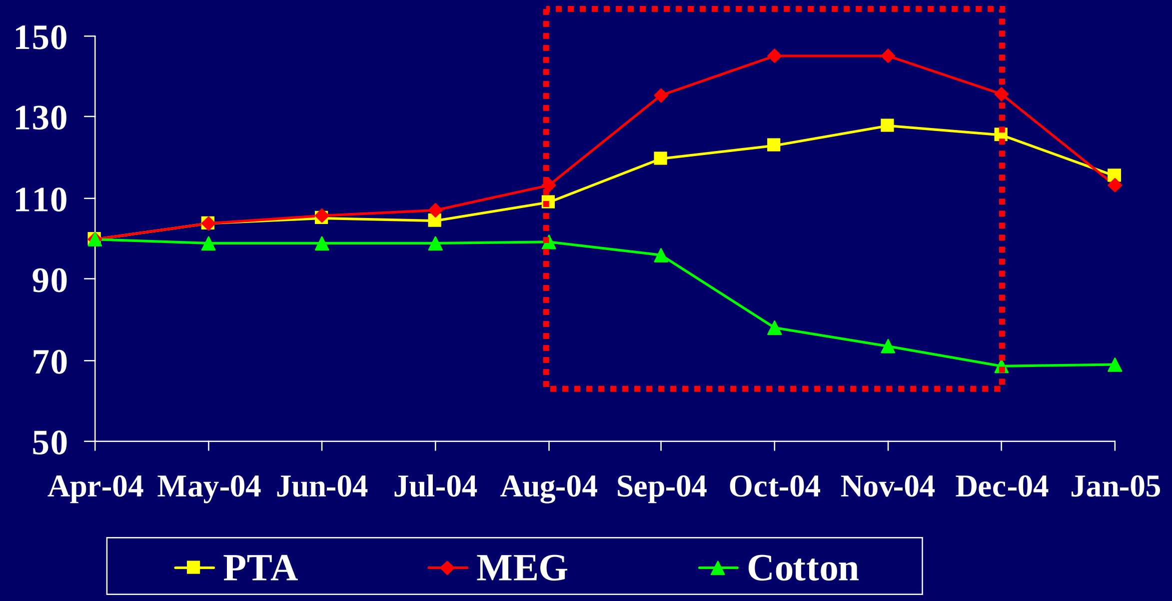
Sky Rocketing PTA / MEG Prices…..

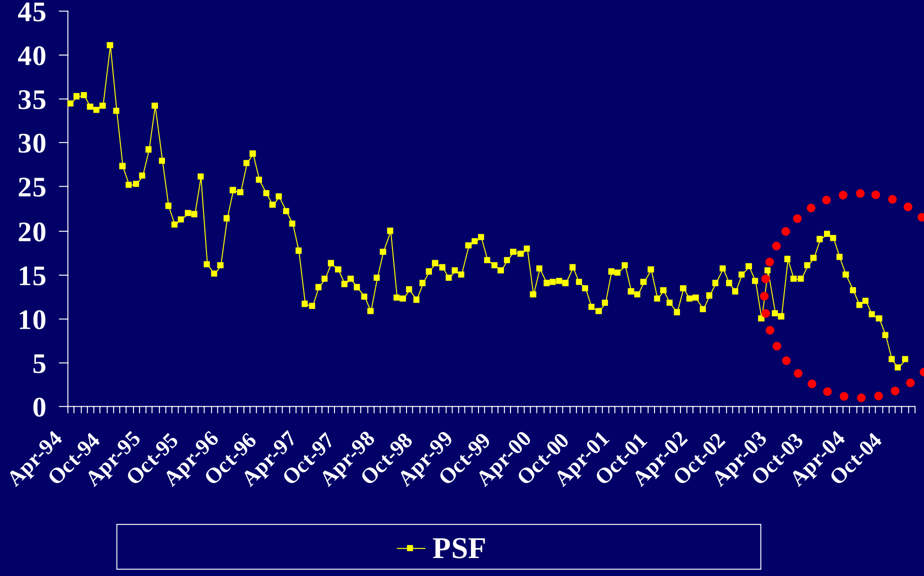
- Increased Raw Material prices impacting the margins

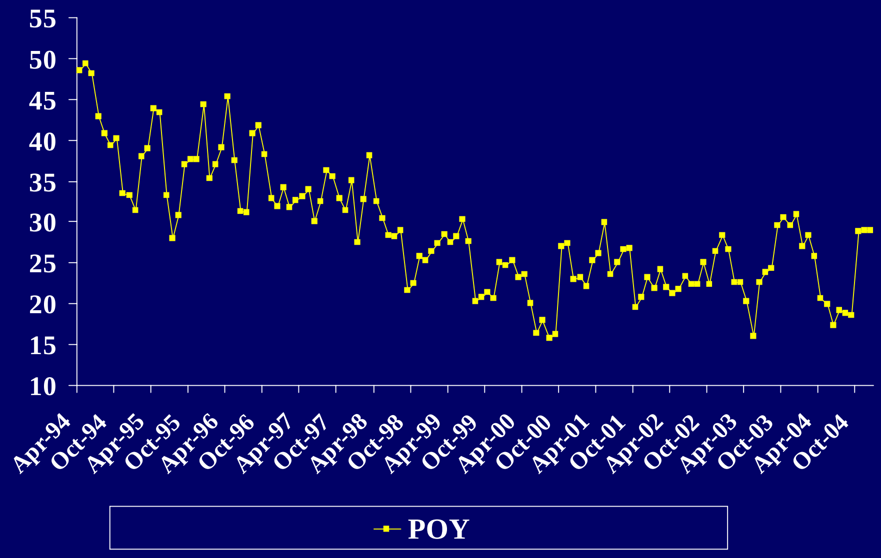


Unfavourable price movement de-stabalised the polyester industry

Polyester Product - Margins

Rs. / Kg





Source : Crisinfac

As on Dec, 04

Margins on PSF are all time low and can only go up…..
POY have started recovering

Environment Stabalising at long last…..

(A) Natural Correction → **Abolition of quota regime**

(B) Govt. intervention → **Expected rationalisation of duty structure**

Enablers of Growth…

- Expected fibre neutral tax regime….

Product	Current BED*	Expected BED*	Reduction
Cotton Yarn	4%	4%	-
Blended Yarn	8%	8%	-
PSF	16%	8%	8% ↓
PFY	24%	16%	8% ↓

**** BED : Basic Excise Duty***

Enablers of Growth…

- Reduction of custom duty on raw materials

Product	Current Custom Duty	Expected Custom Duty	Reduction
Px	5%	5%	-
PTA & MEG	20%	10%	10% ↓
Fibre & Yarn	20%	15%	5% ↓
Garment	20%	20%	-

For industry growth, custom duty on raw materials should be lower compared to finished products

Enablers of Growth…

- DEPB rates in Sep. 04 were reduced by 45% to unrealistic levels
- DEPB rates have recently been revised

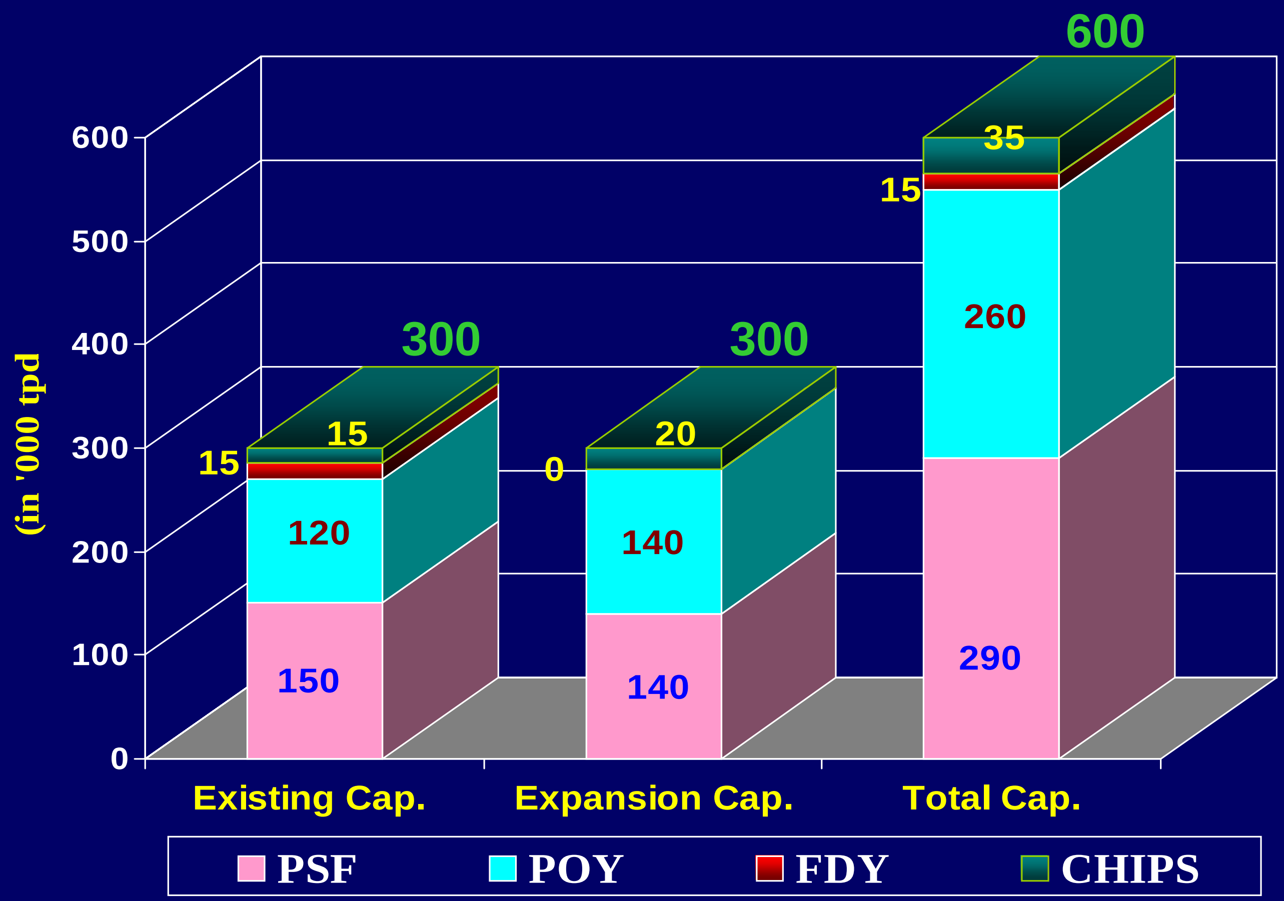
Product	Earlier DEPB rates	Current DEPB rates	Change
MMF	55%	**77.5%**	22.5% ↑
Blended Textiles	55%	**70%**	15% ↑
Cotton Textiles	55%	**40%**	(15%) ↓

Industry adversely effected in last 6 months…

With the correction growth to happen

Indo Rama's Expansion Project

Polyester Capacity Expansion – Existing V/s Planned



Total capacity after expansion will be 600,000 tpa

Project Update…..

- Received the approval of Euler Hermese from Germany for an overseas loan facility
- Signed the loan agreement with DEG of Germany
- Loan agreements with Indian lenders have also been signed
- Site preparation activities for CP 4 & CP 5 completed
- Foundation, footing & plinth beams of Poly & PSF building completed

IRSL already committed Rs. 74 cr. towards the project

Construction of Expansion Project is in full swing…

PSF

POY

Benefits from Expansion…..

- Operating cost of the new plant lower compared to existing plant – Operating cost of existing plant will also come down
- Commercial Production by mid 2006 synchronized with the completion of IOC's PTA plant at Panipat of 530,000 MTs.
- Annual Sales from the new project – Rs. 2000 cr. (approx.) [Asset Turnover Ratio more than 2 in a capital intensive project]
- New Plant has the following additional advantages:
  - Lower Capital Cost of ~ 30%
  - Increased productivity
  - Improved quality due to technological upgradation
- EPS to enhance since equity base remains constant
- DE Ratio continues to be favorable at 1.07

Performance Update

Financial Highlights

Rs. Crore	YTD 2004-05	YTD 2003-04	Q3 2004-05	Q3 2003-04	Audited 31.03.2004
Gross Sales	**1769.63**	**1693.05**	**602.27**	**544.75**	**2196.41**
Sales (Net of Excise & inter-divisional sales)	**1336.06**	**1294.93**	**456.40**	**409.78**	**1663.60**
Other Income	**11.43**	**75.91**	19.90	45.08	**102.42**
(Inc) / Dec in stock-in-trade	(134.69) (10.1%)*	117.49 9.1%*	(44.91) (9.8%)*	(33.97) (8.3%)*	13.13
Raw Material	1082.52 81.0%*	786.64 60.7%*	393.12 86.1%*	296.07 72.3%*	1111.28
Staff Cost	24.58 1.8%*	25.99 2.0%*	8.24 1.8%*	8.85 2.2%*	33.69
Other Expenditure	178.25 13.3%*	155.28 12.0%*	53.99 11.8%*	54.99 13.4%*	211.95
Total Expenditure	**1150.66**	**1085.40**	**410.44**	**325.94**	**1370.05**

* = % of net sales

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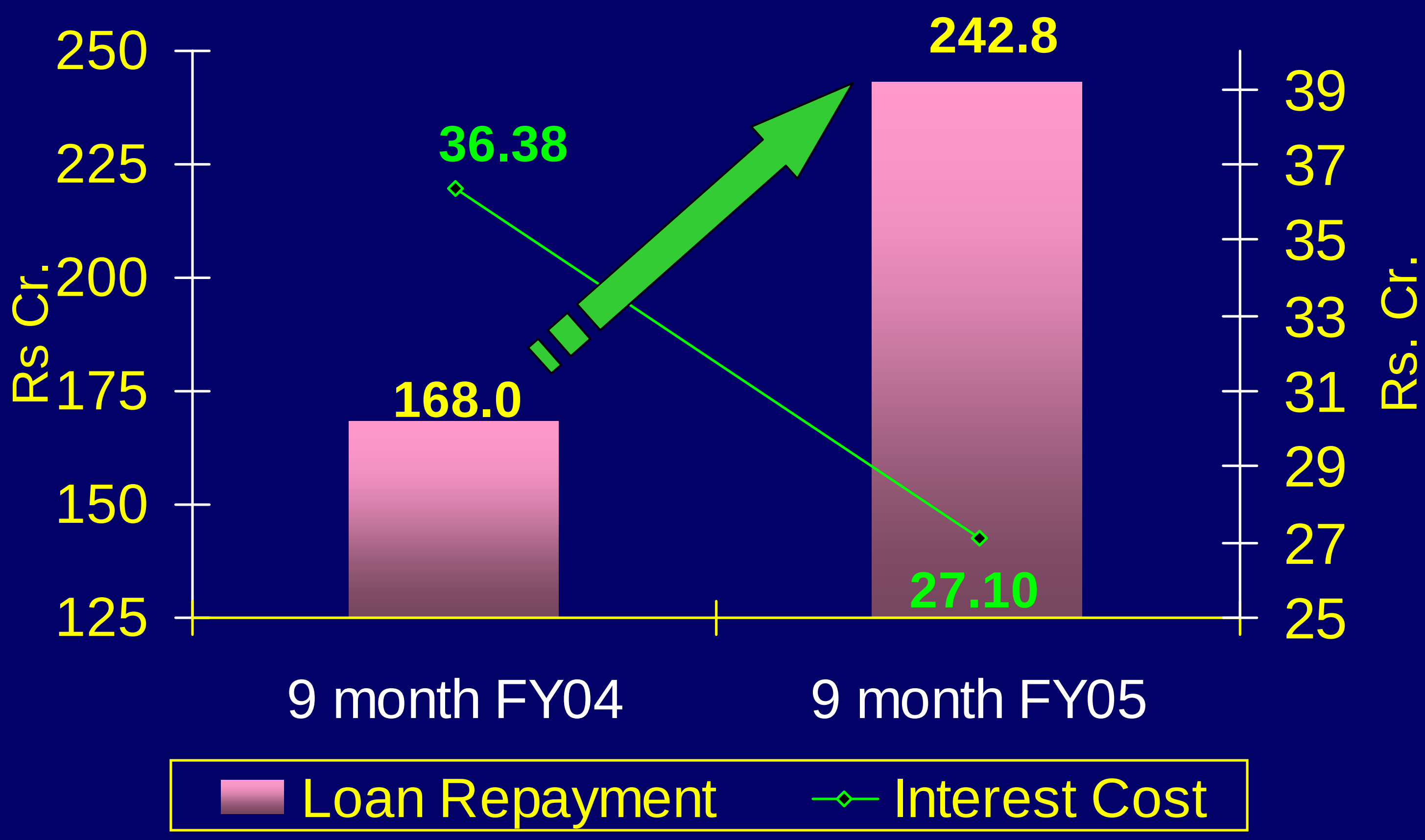
Financial Highlights – YTD FY05

Rs. Crore	YTD 2004-05	YTD 2003-04	Q3 2004-05	Q3 2003-04	Audited 31.03.2004
EBDITA	**196.83**	**285.44**	**65.86**	**128.92**	**395.97**
Interest Cost	27.10	36.38	5.28	7.55	46.93
EBDT	**169.73**	**249.06**	**60.58**	**121.37**	**349.04**
Depreciation	74.10	74.37	24.58	25.21	96.46
Profit Before Tax	**95.63**	**174.69**	**36.00**	**96.16**	**252.58**
Provision for Taxation					
- MAT	4.49	1.40	1.75	(4.59)	4.39
- Deferred Tax	37.04	54.36	12.82	29.00	76.48
Profit After Tax	**54.10**	**118.93**	**21.43**	**71.75**	**171.71**

Prudent Financial Management



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Laurels for Indo Rama in Q3

- **Received "Corporate Sourcing Excellence Award"** during NATCOM 2004 at Delhi, organised by Indian Institute of material management (IIMM) & Ariba Inc.

- **Second in "18th National Convention on Quality Circles"** held at Mumbai

- **Second in "Overall Safety Performance in 'A' Category of Industries"** for 2003-04 organised by Vidarbha Industrial Safety Committee

- **Received "Best Performing Power Plant"** among all the Wartsila power generating plants in India

House Open for Questions