

INDO RAMA

Indo Rama Synthetics (India) Ltd.

Investor/Analyst Conference Call Transcript November 3, 2008

Moderator: Good afternoon ladies and gentlemen, and welcome to the Indo Rama Synthetics Limited, Q2 FY09 results conference call. As a reminder, all participant lines are in the listen-only mode. And there will be an opportunity for you to ask questions at the end of today's presentation. Should anyone need assistance during this conference call, please signal an operator by pressing *, then 0 on your touch-tone phone. Please note that this conference is being recorded. I would now like to turn the conference over to Mr. Gavin Desa of Citigate Dewe Rogerson. Thank you and over to you Mr. Desa.

Gavin Desa: We have with us Mr. Ravindra Singhvi, the President Finance of Indo Rama Synthetics along with the company's senior management team. You may want to keep in mind that certain statements made in this call may be forward-looking and a disclaimer to this effect has been included in the investor release which was sent earlier. We will now begin this call with an overview of the operating and financial performance of the company during the quarter, which will be shared by Mr. Singhvi. I will now handover to Mr. Singhvi.

Ravindra Singhvi: I welcome all of you today to our earnings call for the second quarter and first half of the current year. You would have had the opportunity to go through our results for the quarter under review. I will cover the key developments and financial highlights for the period under review, after which we will answer any questions that you may have.

YTDH1 FY09 net sales amounted to Rs.1291.42 Crores, down by 4.78% and year- to-date EBITDA stood at Rs.81.90 Crore. EBITDA for the quarter ended September 30, 2008, was recorded at Rs.14.92 Crores and the net sales for the quarter stood at 488.36 Crores as compared to 669.36 Crores in the corresponding quarter last year. Net loss for the quarter stood at Rs.61.48 Crores and year-to-date loss at Rs.82.29 Crores as against net profit of Rs.11.80 Crores and Rs.14.07 Crores last year. The performance in this quarter was muted owing to curtailed production and inventory levels. This was led by high-volatility in the crude prices, which has created apprehensions across the value chain and compelled most players to minimize their inventory. Consequently, most polyester players too limited production. The recent declines in crude prices have resulted in lower purchase of crude derivatives like PTA and MEG, which are our key inputs. We expect that with the continuing volatility the environment may take some time to stabilize.

Our power business, though it continues to perform well, besides considerably lowering our cost of operations, we supplied excess power of 17.25 megawatts to the Grid. Our long-term outlook for the textile industry continues to be strong. We believe the situation is in aberration. This brings me to the end of my discussion and we would now be happy to answer any questions that you may have.

Moderator: The first question is from the line of Karan Vasani of Crisil.

Karan Vasani: I have a question on the exports of both PSF and PFY as well as the overall fabric. How do you see these exports moving, do you see a large level of weakness going forward?

Ravindra Singhvi: Yes, export has been a very strong market for us and because of the international disturbances, that is, American and European market problems, and turmoil all over the globe; the exports have come down slightly in our company.

Karan Vasani: When you talk of your exports having declined, are you talking in terms of direct exports of staple fiber and direct exports of POY or are you talking of fabric exports overall?

Ravindra Singhvi: I am talking primarily about our products and textiles at large.

Karan Vasani: You mentioned that China has seen huge capacity expansions over the past two-three years. Would it be fair to say that all the capacity expansions are done and there are no capacity expansions coming up in China either?

Ravindra Singhvi: Yes, now there are no major capacities coming in. Whatever capacities came in, they are already through, but now they are suffering with excess supply. So, they are also hurting us in terms of offloading of goods at very low prices. India is at an advantageous position because of the rupee weakness. The rupee weakness will improve our competitiveness in the international market as against the Chinese currency which has appreciated over the last 1 to 1.5 years by about 13%. There the major advantage is to India and we feel that in times to come we will reap this advantage.

Karan Vasani: You mentioned that exports have declined in current Quarter. Could you give me a number? Would 15%-20% be a fair approximation?

Ravindra Singhvi: Yes, in terms of volume it has declined by about 10% quarter-over-quarter.

Karan Vasani: Would the decline be larger in staple fiber or would it be larger in filament yarn?

Ravindra Singhvi: It has been in PSF segment.

Karan Vasani: This actually goes against what we were thinking because cotton availability is tight globally, so people might switch over to a staple fiber, but then the staple fiber is also declining, what is your view on this?

Ravindra Singhvi: Though cotton is an important factor, the main problem is that the market demand has shrunk over this period. The players were all hit by the global downturn and global turmoil in their respective economy & too much fluctuation in their currencies. So, the focus was not on cotton or polyester, the focus was on how to put the house in order. Basically that impacted the demand for the products.

Karan Vasani: Do you see this export demand recovering going forward, maybe not immediately, maybe not in this financial year but in the next one or two financial years, and at what rate do you see it recovering?

Ravindra Singhvi: The demand will recover, but it will take time for the whole system to stabilize. And as long as stability is not there, the demand will grow at a very slow pace. With the passage of time once there is stability; India will stand to gain.

Karan Vasani: You mentioned that the weakness of the rupee has benefited you. But if you look at the PTA and MEG, pricing will be done on landed cost. So some impact of the rupee weakness will be felt there, so will a significant portion of that not be offset?

Ravindra Singhvi: Yes, of course. Ultimately currency is an important factor while pricing of the raw material is done. But yes, there are larger gains and some issues, which hurt us also. Largely the raw material prices are reducing, so in the medium term they should help us.

Karan Vasani: And do you expect global operating rates of PTA and MEG to decline with additional supply coming in?

Ravindra Singhvi: Yes. The operating rates will decline and this will give an advantage to downstream players like us.

Moderator: The next question is from the line of Sai Anjali of Capital Markets.

Sai Anjali: Could you tell me what are the prices of PTA and MEG in November?

Ravindra Singhvi: The PTA-MEG prices are changing every week, globally. At a global level as of now the prices for PTA are at around \$560 and for MEG around \$430.

Sai Anjali: Is this in November?

Ravindra Singhvi: They are moving. The prices are changing every week.

Sai Anjali: Regarding your polyester price, what has been the polyester price in November, is there any change in it?

Ravindra Singhvi: Yes polyester prices for November in India have changed. We have reduced our prices, in sync with the reduction in the raw material prices also looking at the demand-supply scenario.

Sai Anjali: Is it possible to see how much the reduction has been and to what?

Ravindra Singhvi: If you compare it with October 1st, it has reduced by around Rs 6.50.

Sai Anjali: Is it possible to say what the price is in November?

Ravindra Singhvi: Rs.61.00 is the price of PSF , and we have got various grades in POY, which start at 63 and onwards.

Sai Anjali: Regarding the PTA and MEG price reduction, by how much do you expect it to come down?

Chiranjiv Lal Choudhary It's anybody's guess. Cost prices have been coming down continuously during the month, the lowest prices of PTA have been \$ 550 and for MEG it was around \$400. We are probably near the bottom.

Sai Anjali: So you are almost near bottom, do you expect it to go up any time?

Rajesh Sharma: Depending on the crude situations and the China demand patterns.

Moderator: The next question is from the line of Pankaj Choksey of HDFC Mutual Fund.

Pankaj Choksey: You said that the domestic market was not too good and therefore production levels were lower, just wanted to check, what is the possibility of exports? And the second thing is, how is the pricing currently vis-à-vis import parity for your products and the raw materials?

Ravindra Singhvi: As far as the domestic market is concerned, when there is a falling trend of prices then markets do not work properly as per its potential because everybody is scared about the instability in the whole pricing pattern. The domestic market's customers were mainly liquidating their inventory, so that with the falling price regime there would be no losses. As far as exports are concerned the export prices were also falling during these periods, so exports were also not to their full volume and would take a shape once the overseas market stabilizes.

Pankaj Choksey: What are the volumes that you expect overall, including all the products for the current fiscal?

Ravindra Singhvi: It is difficult to guess at this point of time because what we saw three-four months back has totally changed. It will take a little time to see where we reach.

Pankaj Choksey: The second was the domestic product prices, what is your import parity for POY-PSF. MEG-PTA I presume will be entirely on import parity so there is not much difference, could you explain POY and PSF?

Ravindra Singhvi: POY prices are still lower than the import parity prices.

Pankaj Choksey: How much lower would that be, roughly?

Ravindra Singhvi: Around Rs.2 to Rs.3 because there are various grades, prices differ by countries also. There is a difference of about Rs.2 to Rs.3 in the import landing and domestic prices.

Pankaj Choksey: That's for POY and how about PSF?

Ravindra Singhvi: For PSF the gap is a little low, around Rs.1 to Rs.2.

Moderator: The next question is from the line of Amol Rao of Pinc Research.

Amol Rao: Yes at the end of FY08, that is on April 1st, 2008, we were carrying around 55 Crores of stock on our books, it is in the result table, stock-in-trade and work in progress. We have decreased the stock-in-trade and work in progress by 215 Crores. So could you just explain where we have liquidated all these and what is the mismatch? Could you explain that to me, when you are stocked up 55 Crores, how can we sell 215 Crores?

Ravindra Singhvi: Are you comparing the half-year ended versus the quarter ended?

Amol Rao: Correct

Ravindra Singhvi: These represent movement in stocks. They are not actually stocks.

Amol Rao: So what is the inventory that we are carrying on the books that we have to liquidate?

Ravindra Singhvi: Now that we are at the end of the quarter we are virtually less than a week's inventory. We are now maintaining and managing our inventory very well and we work to service the customer only.

Amol Rao: Next quarter probably, we will have to see an increase in inventory. Right?

Ravindra Singhvi: Let us hope that we do not do that, otherwise the advantage will be lesser. We will try and manage the inventory at this level only.

Amol Rao: And for the power business, what is the rate at which you supply to the grid?

Ravindra Singhvi: That needs to be checked; actually I cannot say that off hand but it is a good rate.

Amol Rao: Is our power based on coal?

Ravindra Singhvi: Yes, it's based on coal.

Amol Rao: So what is our source of procurement?

Ravindra Singhvi: It is from the govt. coal quota that has been allotted to us.

Amol Rao: From which mine?

Ravindra Singhvi: From the Western Coal Field.

Amol Rao: Is that close to Nagpur?

Ravindra Singhvi: It is quite close to Nagpur.

Moderator: The next question is from the line of Vallabh Modani of ENAM Securities.

Vallabh Modani: The first is what capacity utilization are you operating at right now because there is a demand side issue? The second is, you mentioned that you are benefiting out of the rupee depreciation and at the same time the Chinese are losing out because of the Yuan appreciation. I just want to understand that what are the situations, because the differentials are almost to the tune of around 25% to 30%. What makes it a poor case for India that India cannot export and China is still able to dump the product in India. The third one is on the financial side, what are your debts and at what is the interest rate at which your debts are packed?

Ravindra Singhvi: Capacity utilization as of now is around 80%, and we have restarted our plants. As far as currency is concerned, China versus India, we are definitely at an advantage because our currency has weakened, whereas Chinese currency has strengthened in this period of time. So, our export competitiveness improved with it. In the times to come when the international market stabilizes, the first gain will be to India to score and to export whatever its capabilities are. From currency angle we are better off and as far as financial debt and interest are concerned, my colleague Mr. Soni will give you the details.

Laxmi Soni: The debt-equity ratio at the end of 30th September, 2008, is 2.36.

Vallabh Modani: Since the markets are pretty tight right now, are you offering higher payment periods to your dealers or is there any increase in your debtors?

Ravindra Singhvi: Most of our sales are in cash & may be some cases the credit period extension is minor.

Moderator: The next question is from the line of Pragati Shrivasta from Dun & Brad Street.

Pragati Shrivasta: One question is regarding the risk hedging. Last year we saw that the currency was appreciating and therefore textile players had gone in for hedging of their currency. Now, that the trend is reversed, since the currency is depreciating do we have those currency covers reduced? What is the extent of those and what is going to happen in the future? And next question is, with respect to competition, apart from China, are countries like Vietnam and other Asian countries also competing as of now?

Rajesh Sharma: We have seen a lot of volatility in the Forex markets recently and have been watching the markets to ensure that we act in time to mitigate risk suitably. Because of this we are not carrying any derivative deals in the form of swap / options. Those have impacted companies badly in Forex markets recently. On the capital front, our loans are significantly denominated in Euros and you'd have probably observed that the Euro has dipped drastically in the current session from levels of 1.60 to 1.28 levels in only a three month period. Given this volatility and free falling trend, we are keeping our entire liabilities open. Further, we are watching the market very closely and ensuring that suitable actions are taken as when required..

Ravindra Singhvi: As far as currencies and our products are concerned, our major competition is from China only, because countries like Taiwan, Thailand and Indonesia, are not that kind of a competitor to us. Their capacities are much smaller. Even if they have the capacities, their currencies are not depreciated as much as India.

Moderator: At this time there are no further questions from the participants. I would now like to hand the conference over to Mr. Singhvi for comments that he may like to add.

Ravindra Singhvi: I want to thank all the participants. I wish that when we meet next time the results will be better. And I am sure, that India will gain from whatever disturbances and turmoil you have seen in the past few weeks. Thank you.

Moderator: Thank you Mr. Singhvi. Thank Mr. Rajesh Sharma. Ladies and gentlemen on behalf of Indo Rama Synthetics that concludes this afternoon's conference call. Thank you for joining us and you may now disconnect your lines.