

Transcript of Indo Rama Synthetics Limited

Q1 FY06 Results Conference Call

July 14, 2005

Moderator

Good afternoon ladies and gentlemen. I am Monali, the moderator for this conference. Welcome to the Indo Rama Synthetics conference call. For the duration of the presentation, all participant lines will be in the listen-only mode. I will be standing by for the question and answer session. I would like to hand over to Mr. Amit Jain from Indo Rama Synthetics. Thank you and over to you sir.

Amit Jain

Thank you Monali. Good afternoon ladies and gentlemen. First of all, thank you for joining us to discuss Indo Rama Synthetics Limited results for the quarter ended June 30, 2005.

On this call, I have with me Mr. Bhatia, he is President and Business Head Polyester, Mr. Suman Das, Senior VP - Business Strategy and Corporate HR, Mr. Abhinandan Chaterjee, President and CFO, Mr. Subash Kathyal, AVP Finance.

Before we started this conference call, I would like to mention that some of the statements and discussions during the call might be forward looking. For this, I request you all to refer to the complete Q1 FY06 results release, which contains a statement in this regard.

Now, I would like to invite Mr. Abhinandan Chaterjee to take this call forward. Mr. Chaterjee.

Abhinandan Chaterjee : Thank you Amit. A warm welcome to all of you on this Q1 results call. It gives me great pleasure to have you on call with all of us. Before I begin, I must mention that our Chairman and Managing Director, Mr. O. P. Lohia, would have also liked to be with us on this call, but unfortunately he is not available due to some pressing personal and family commitments.

I choose that most of you would have by now reviewed our results announced yesterday, and I will take this opportunity to cover some of key highlights and take you through the performance in more detail. Thereafter, we will be happy to have an interactive forum where we can discuss questions that you may have in more detail.

Our performances for the quarter have been progressive, especially on the operations front. Our sales volume for the quarter increased by 13.4% to 85,702 metric tons compared to the corresponding quarter last year. It is one of the best quarterly sales performances that we have ever achieved. We have registered such robust sales on the back of a positive demand scenario for polyester fiber and yarns, and we took the opportunity to liquidate a substantial portion of our finished goods inventories during this quarter. In fact, as at the end of the quarter, we were able to reduce our inventory levels by 2/3rd from 52,890 metric tons as on June 30, 2004, to 16,506 metric tons as on June 30, 2005, carrying the lowest volume of finished goods inventory in the history of this company.

During the quarter, we also witnessed some degree of softness on raw materials, PTA, and MEG prices, although crude oil prices remained distinctly firm. It is our belief that downstream petroleum products have their own set of demand-supply dynamics, and they are in not absolute direct correlation with crude oil prices. It is also our assessment that the raw material scenario is getting balanced, and prices are expected to remain subdued to still going forward. We believe that the demand growth in polyester is being driven by a combination of better volumes absorption in the domestic markets and increasing level of international shift, such a demand scenario is expected to continue over medium to long term.

Along with higher fiber sales, we have strong growth for POY where the demand prospects were supported by excise duty reduction in the recent budget, which enabled a net increase in POY realization.

We also maintained our focus on expanding our value-added portfolio, during the quarter sales, FDY increase by 8% to 4,854 metric tons. At the same time, we have reduced our revenue contribution from polyester chips, which is a relatively low margin product.

Our confidence in polyester sectors, prospects and the outlook for the business over long-term is robust. The capacity expansion which doubles our from 300,000 tons per annum to 600,000 tons per annum is implemented at Butibori, operating capacity and is on plan and as per the time lines. The expansion is on time and within budget. Erection of key equipment is under progress, and we hope to be able to commence production by mid 2006. Nearly 44% of the engineering work and 55% of the civil work have already been completed. Once implemented, this low cost expansion initiative, we expect will make noticeable contribution to our future performance.

Now moving onto some financial numbers, during Q1 2006 we realised revenues of 4,990 million as compared to 4,166 million in the last corresponding quarter, arising mainly out of higher volumes. EBITDA stood at 416 million, cash profits at 329 million, EAT at 100 million, 40% higher than Q1 financial year 2005, translating into cash EPS of 2.50 and an EPS of 0.76. On the balance sheet front, we have managed to reduce the debt levels to Rs. 5,020 million as of June 30, 2005, as compared to Rs. 6,840 million as of June 30, 2004, through a combination of deploying internal accruals and prudent financial management activities. Our debt equity ratio as of end June stood at 0.92.

This brings me to the end of my discussions, and we would now be glad to discuss any specific details or questions that you may be having in mind. I will leave the house open for discussions. Thank you

Moderator : Thank you very much sir. We will now begin the Q&A interactive session. Participants who wish to ask questions may please press *1 on our touchtone-enabled telephone keypad. On pressing *1, participants will get a chance to present their questions on a first-in-line basis. Participants are requested to limit to one question in the initial round. Follow-up questions will be taken later. Participants are also requested to use only handsets while asking question. To ask a question, please press *1 now. We have first question from Mr. Dhawal from Angel Broking.

Dhawal : Hello sir, very good afternoon sir.

Abhinandan Chaterjee : Good afternoon, Mr. Dhawal

Could you please give me the breakup of other income of 16.66 crore?

Abhinandan Chaterjee : Yes, please. Other income of 16.66 crore comprises of gain on investments 10.14, foreign exchange gains 3.49, and other miscellaneous income including scrap sales and things like that 3.03 crore.

Dhawal : Thank you sir.

Moderator : Thank you very much sir. Participants who wish to ask questions, may please press *1. Next, we have Mr. Nitin from Emkay Shares.

Nitin : Good afternoon sir. Can we have a breakup of your sales according to the product wise with the volumes, is that possible for you?

Abhinandan Chaterjee : PSF sales volumes 44,291 tons; POY 33,885. FDY 4,854, and DTY 9,098. These are the key ones.

Nitin : And chips.

Abhinandan Chaterjee : Chips is 1,122.

Nitin : Can we have the value of these?

Abhinandan Chaterjee : Yes please. Value is PSF 238 crore. POY 247 crore. FDY 44 crore, DTY 76 crore and Chips 6.5 crore

Nitin : How has been the volume comparable to the last year and the realization compared to the last year?

Abhinandan Chaterjee : PSF sales 1% lower than last year in volume terms.

POY sales are 43% higher than last year. FDY sales are 8% higher than last year. Chip sales are lower, we hardly sold and chips during the quarter; and DTY sales are about 4% lower than last year in volume terms.

Nitin : In value terms?

Abhinandan Chaterjee : In value terms, PSF sales a 3% lower than last year; POY sales are 46% higher; FDY sales are 6% higher than last year; DTY is 4% lower than last year.

Nitin : So, basically what you mean to say is in POY you did not face any realization increase this time? PSF was lower, FDY realization was lower, and DTY realization was very low, so that is what has hit your margins, is it?

Abhinandan Chaterjee : Actually, what has impacted us is that we had an inventory valuation loss. And note our margins both on PSF and POY are improving.

Nitin : Okay. That I agree because raw material prices are more or less same.

Abhinandan Chaterjee : And so, I mean, and that will be very evident from the quarters going forward because our inventories have come down to an all-time low.

Nitin : You know, because I was just seeing that your inventory from your March level, so you are giving me comparison sir, as compared to a last year. Can you give me a comparison to the June this year, how much inventory have you liquidated from, sorry, March this year?

Abhinandan Chaterjee : Yes please. In March, we had total finished goods inventory 44,000 tons to 49,000 tons that has come down to 16,506 tons in June end.

Nitin : Okay. So, you mean to say that, did you cut down your production to reduce this, is it? How much, at what capacity utilization did you work during this quarter?

Mr Bhatia : You see in POY and FDY the capacity utilization was 100%.

Nitin : Okay.

Mr Bhatia : But in PSF, capacity utilization was 70%.

Nitin : Okay. And what about the DTY, how did it go?

Mr Bhatia : It was full, 100%.

Nitin : FDY and DTY is full. So, making FDY and DTY from POY, I believe is that the procedure, the whole thing.

Mr Bhatia : No, POY is separate item and FDY is separate.

Nitin : Okay.

Mr Bhatia : DTY is made from POY.

Nitin : DTY is made from POY. So, what is the procedure for making POY to DTY?

Mr Bhatia : You have to have **texturizing** machine.

Nitin : Okay, only the texturizing, that is it.

Sir you said in the other income there was a Rs. 10.14 crore of investment income or a sale of investment?

Abhinandan Chaterjee : Income from investments.

Nitin: Like dividends and interest.

Abhinandan Chaterjee : Yeah, and also profit from sale of investments.

Nitin : You know, I have just seeing that the investments that you had towards the year end, they were like very low as compared to the year before that. You know, you have investments of, if I am not mistaken, of some Rs. 65 crore only at 05 end.

Abhinandan Chaterjee : Yes.

Nitin : So, on Rs. 65 crore you are getting Rs. 10 crore of income, have you sold anything, or can you just give a breakup of this, I mean, how much of investment are you left with now?

Amit Jain : Nitin, we have not increased the investment level. The investment level is same, 65 crore. 65 crore as of 31st March luckily because of market, you know, that moved up substantially and from there only we have gained. Still if you look at, we are holding Rs. 65 crore of investment, and why we are holding it - there is a strategic reason behind it. We are in the expansion mode, basically we have kept this as buffer money. That in case if there is any cost escalation, we should not face any crunch. We do not want even a single day delay in the project because of non-availability of funds.

Abhinandan Chaterjee : It is a safety vault for us.

Nitin : Okay

Abhinandan Chaterjee : In case of any unforeseen contingencies, in case coming, we do not visualize any at this point of time, so this is a safety vault for us.

Nitin : So, this would be, most of it would be unrealized gains, is it?

Amit Jain : No, these are all realized gains, booked.

Nitin : Booked realized gains.

Amit Jain : Nitin, there is a principle of LCM. So, whatever is booked has to be brought to the book, unrealized is not brought in the books.

Nitin : Okay. You are not bringing anything unrealized in the books, okay. You said that debt come down to Rs. 502 crore. The March ending debt was some Rs. 576 crore, so there is a reduction in the three months of Rs. 74 crore of debt. Can you tell me like this Rs. 74 crore, I was just seeing your cash profit, you have done some Rs. 9.6 crore earnings on PBT level this year, and you have a depreciation of some Rs. 25 crore. So, cash profit is about Rs. 34 crore if I am not wrong? Just correct me if I am wrong, and Rs. 74 crore is in your debt reduction, so the balance Rs. 40 crore has come from?

Abhinandan Chaterjee : You see our liabilities have gone up. We have been able to get extended credit facilities from many of our suppliers and that has helped us to enhance our cash position and liquidity position.

Nitin : Extended credit facilities.

Abhinandan Chaterjee : Yes, please.

Nitin : So, if you are getting extended credit facilities from your, so you must be paying lower payments to them I believe, is it?

Abhinandan Chaterjee : Please come again.

Nitin : Yeah. I wanted to speak in terms of Rs. 40 crore that you have credited Rs. 74 crore, that money that you said that the extended credit facility that you got from your suppliers. So, we have not paid them much and so our creditor period is increasing?

Abhinandan Chaterjee : Yeah, these are free credit from suppliers.

Nitin : Free credit from suppliers. Okay, free credit from suppliers.

Mr. Katyal : In addition, you see the inventory which was Mr. Chaterjee has already covered with you.

Nitin : Yes sir.

Mr. Katyal : From March 31, 2005, till June 30, 2005, there is a liquidation of stock, which obviously has to be added into the cash flow. There is all matching of cash flow. You are right that we have about 35 crore cash flow, cash profit in this quarter.

Nitin : Yes.

Mr. Katyal : Along with that you have to add the liquidation money available from the liquidation of stock, finished goods inventory. All that is cash source, the application side comes on the other side.

Nitin : The applications.

Mr. Katyal : And we are still left with the enough liquidity.

Nitin : Okay. Sir, can we get a sense of how is the market now, right as of now, the quarter has gone and I was just seeing through the numbers that you released on your website about the PSF and POY prices, they are substantially lower from May to July, again your prices of PSF and POY has come from, you know, 71.75 it has come down to Rs. 69, your POY prices, fell drastically about Rs. 2, in June it was about 65.80, from 71 to 65, 65.69, I mean, can you see the volatility, is there the amount volatility of that you have in pricing also like when you sell it to the costumers? How much of your sales, happens on a spot basis, the price that you report and on a contract basis?

Abhinandan Chaterjee : See in India, all the sales are made on the spot prices, there is no contract.

Nitin : Okay.

Abhinandan Chaterjee : The prices are decided from month-to-month.

Nitin : Okay.

Abhinandan Chaterjee : Now, the raw material prices are quite stable.

Nitin : Okay.

Abhinandan Chaterjee : The margins have improved.

Nitin : The margins are improved?

Abhinandan Chaterjee : Yeah. Now, what we expect that whatever is the raw material increase is able to pass on to our costumers so that the margins are maintained.

Nitin : Okay. So, margins are improving. And now do you think, whether you know, because Mr. Lohia has been telling us, we have hit the worse, and I think now it is 5% from last quarter's

4.5% on a quarter on quarter basis. Do you think now going forward since you are sitting on low inventory, the costs are lower, it should get better from here?

Abhinandan Chaterjee : Absolutely.

Nitin : Absolutely. So, how do you think the prices to behave in the six to eight months?

Abhinandan Chaterjee : The raw material prices?

Nitin : And the finished good prices.

Mr. Bhatia : You see, there are some new capacities, which are coming up in PTA and MEG. One is IOC in India, who are likely to start production of PTA in the month of November this year. And there is another PTA plant coming in Thailand, Mitsui. That is again 600 ton per annum capacity. Then, the Indo Rama PTA plant is also coming up in Thailand in March 2006. So all these raw material, you know, is going to be comfortable situation, and it will be under check and stable.

Nitin : Okay. So, you mean to say the raw material prices should become low?

Abhinandan Chaterjee : Likely to be better.

Nitin : Likely to be better. Okay. Sir, in your notice you have sent a release that about 14 cr. of investment, can you throw some light on that investment, the strategic investment that you are talking about there.

Abhinandan Chaterjee : The strategic investment, this is the long-term investment which we made about two years back in Starpet, US, which is now known as Indopet, Thailand. It is a joint venture of Indo Rama Thailand in a pet plant in US. So, this investment was made by us about two years back.

Nitin : Okay. So, you are contributing another Rs. 10 crore there in this quarter?

Abhinandan Chaterjee : Sorry, come again.

Nitin : So, this is what, you have contributed some Rs. 10 crore more towards the equity participation of that company.

Abhinandan Chaterjee : No, listen, that Rs. 10 crore is marketing investment, which is invested in India, that is not invested in India...we are talking about...

Nitin : No, I am talking about Indo Rama Petrochemical, which is setting up a power. I was not talking about the US and the Indopet, I was talking about the one that made the Indo Rama Petrochemicals Limited.

Abhinandan Chaterjee : See Indo Rama Synthetics is increasing its capital city from 300,000 tones to 600,000 tones.

There will be additional power requirements. So, we are putting up a 30 megawatts power plant. Indo Rama Petrochemicals will be setting up the power plant and will be selling power to Indo Rama Synthetics, both the companies have entered into a power purchase agreement.

Nitin : Okay. So, that Indo Rama Petrochemicals Limited, who owns that company?

Abhinandan Chaterjee : Indo Rama Petrochemicals is owned by the Lohia family and Indo Rama Synthetics will also be having a stake in it.

Nitin : How much is Indo Rama Synthetics' stake in it?

Abhinandan Chaterjee : 33%.

Moderator : Mr. Nitin can you please come for a follow-up sir.

Nitin : Sure, I will do that. Thank you.

Moderator : Next in line, we have Mr. Manish Bhandari from ING.

Manish Bhandari : Hi, good afternoon to team. I have got two queries, one I just wanted to know China's position on PSF addition and can we be a net exporter at some point of time, and what is the position on the raw materials front, and then I will have a follow-up question.

Mr. Bhatia : See as far as China is concerned, China is you know expanding capacities both in POY and PSF, more in POY actually, and they are not exporting because they need for their own domestic market. Also, they are using this for their export of garments and fabric.

As far as raw material is concerned, raw material situation is going to be better from next quarter when lot of new PTA and MEG capacities are being commissioned.

Manish Bhandari : No, as I understand, China is net short on the raw material....

Mr. Bhatia : Yes, they are importing PTA and MEG. They are also putting up their own capacities. So, year-by-year their imports will decrease.

Manish Bhandari : Okay.

Mr. Bhatia : In India also, as you know, Indian Oil will be putting up a the PTA plant.

Manish Bhandari : That is okay. If you have the number then probably you can tell us that how much the net excess supplies is there in the raw material in the global system and who much is the net excess supply in the PSF, and how it will move in three years forward? Some rough number, rough estimate, not some precise number?

Amit Jain : Hello Manish. If you look at the total global MEG capacity right now, 2005 18.4 million, which is expected to increase 20.4 million in 2006, and will touch something like 26 million by 2008.

Manish Bhandari : Okay.

Amit Jain : And if you look at on the surplus side, surplus was hardly any because all the MEG plant, on the global level I am taking about, of 18.05, they were operating at about 87% - 88% levels.

Manish Bhandari : Okay.

Amit Jain : 2006, the operating rate should reduce, and what we feel is that the intermediate up cycle is reversing, because like what Mr. Bhatia has already mentioned lot of PTA and MEG plants are coming up, not only in India across the globe.

Manish Bhandari : Okay.

Abhinandan Chaterjee : There will be surplus available in 2006, 2007, and 2008.

Manish Bhandari : So, at the movement it is equating demand balance supply, and 2006 will have a surplus...

Abhinandan Chaterjee : Yes, 2005 it is more or less equating, supply and demand was equating, and supply of MEG as well as PTA is increasing drastically. So, there will be a comfortable position moving forward.

Mr. Bhatia : But regarding China, China will continue to import MEG.

Manish Bhandari : No. From where I was coming from that, is there a possibility that your raw material cost will remain high. You would not see a decline in the raw material prices because of the China factor, what usually is happening in other commodities also?

Mr. Bhatia : We have two main raw material one is PTA and second is MEG. As far as PTA is concerned, there will be enough capability available in India. So, we will be able to get the PTA at good price.

Manish Bhandari : No, but at least it is going to be globally linked, so you would not get benefit unless until global prices come down, am I right?

Abhinandan Chaterjee : No, we are buying locally, there is a logistic factor involved.

Manish Bhandari : Okay.

Mr. Bhatia : So the Indian Oil and Reliance and Mitsubishi, they will have enough capacity to cater to the Indian requirement, and surplus capacity. Whenever there is a surplus capacity, it is better to get good bargain. As far as MEG is concerned, SABIC is number two, and ME global is number one. They are adding one plant every two years.

Manish Bhandari : Okay.

Mr. Bhatia : So, they are also going to be surplus in MEG from next year onwards.

Manish Bhandari : Okay.

Mr. Bhatia : There is another plant of MEG coming in Iran by end of this year, so MEG position is going to be easy by next year. We already have firmed up our procurement plans for MEG with Sabic and ME Global, which are number one and two players in the world. And also we have an agreement with IOCL and Mitsubishi, and you know, there is no issue as far as we are concerned.

Manish Bhandari : So, net-net I can sum up that there would be a surplus situation by 2006 and 2007 in PTA and as well as MEG in the global system?

Mr. Bhatia : Yes.

Manish Bhandari : Okay. My second query was in the bunching of capacity of PSF, which is happening by May 2006, when you and Reliance both expand, double your capacity, what is going to be the impact on the price in the domestic market?

Mr. Bhatia : Yes, you are right, when these new capacities come, demand will not be as much.

Manish Bhandari : That is right.

Mr. Bhatia : For some time, may be for one year, there is going to be some pressure on the sales.

Manish Bhandari : How much?

Mr. Bhatia: Cannot say at this moment because this quota opening up, the demand is also increasing and we are seeing the effect of June itself.

Manish Bhandari : That is right

Mr. Bhatia : The sales are increasing, and also we believe that lot of new spindlage is being put by various spinners, and the delivery time which was earlier six months from the machine manufacturer, has gone up to 18 months now. There is a big demand from new spindlage are being put up. So, the capacity will grow. So I think, maybe 2006 will be an issue where some export will have to be made from India, before 2007 everything should be in place.

Manish Bhandari : Okay. So, you have this, three months to six months timeframe where you will see some softening of the prices in the domestic market?

Mr. Bhatia : See, at that time, Reliance and Indo Rama they have to export some quantities.

Manish Bhandari : As part of your export obligations.

Mr. Bhatia : Not export obligation, because we will have little bit of surplus at that point of time. The market will take some time to stabilize and grow. To take advantage of that situation we will, both the manufacturers will export some quantities.

Manish Bhandari : Okay.

Mr. Bhatia : And by the time, the local market grows, because revenue streams are better in local markets, then we will switch over to the local back again.

Manish Bhandari : Can we assume a double-digit growth rate in PSF demand going forward in the domestic market, healthy double-digit demand 17, 18, 15%?

Mr. Bhatia : : Yes, double digit growth should happen.

Manish Bhandari : Okay. Thanks a lot.

Moderator : Thank you very much sir. Participants who wish to ask questions may please press *1. Next is Ms. Prerna Jhunjunwala from Asit C. Mehta.

Perna Jhunjunwala : Hello. Good afternoon sir. Sir, I was just going through your numbers, your raw material as a percentage of net sales has increased this quarter to 83%, which was 67% in the last corresponding quarter, and if you see for the full year FY05 it was around 74%. So, can you give me the reason why, is it a volume growth or a value growth in this?

Abhinandan Chaterjee : As we explained some time back that there is an impact of inventory loss, which is included in this numbers, that are distorting the percentages.

Perna Jhunjunwala : But you said your inventory levels are going to come down.

Abhinandan Chaterjee : Last year Q1, we had an inventory valuation gain of 18 crore. This year Q1, we are having an inventory valuation loss of 22 crore, that is distorting the numbers.

Perna Jhunjunwala : This is just the valuation distorting the numbers, it is not the..?

Abhinandan Chaterjee : Absolutely. Our margins per se are improving, both on PSF and POY, and these improvements should be visible from the next quarter numbers.

Perna Jhunjunwala : Okay. Can you explain me what is FDY and DTY in your product portfolio like, what are these things, what are these products about?

Mr. Bhatia : See, we produce about 1000 to 1300 tons of FDY depending on the market & produce about 2000-2500 tons of DTY per month.

Perna Jhunjunwala : Okay. And this time you have produced, could you get back to those numbers, I could not get them, FTY volume and DTY volume in this quarter, volume production, sales volume.

Abhinandan Chaterjee : Sales volume PSF was 44,291 tons, POY was 33,885 tons, FDY was 4,854 tons, DTY 9,099 tons.

Perna Jhunjunwala : Okay. Thank you sir. Thanks a lot.

Moderator : Thank you very much m'am. Next is Mr. Prashanth from JM Mutual Fund.

Prashanth : Good afternoon sir. Sir, can you please let me know what duty structures are at present.

Mr. Bhatia : On your raw material it is 15%.

Prashanth : Okay.

Mr. Bhatia : Also on finished goods 15%.

Prashanth : Okay.

Mr. Bhatia : This is the distortion.

Prashanth : Okay. Sir, recently there was some reduction in excise duties, and if I understand there will be some benefit out of it because you may not be passing on the entire benefit to the customers.

Mr. Bhatia : No, we have passed on entire benefit to the customers.

Prashanth : Okay. So, we have just passed on the entire benefits.

Mr. Bhatia : Yeah.

Prashanth : Okay. Sir, secondly, I would also like to understand with this MEG & PTA capacities are coming in, and I agree to it if the excess capacities come in, the prices may remain somewhat depressed, but sir what will be the scene if the crude oil prices remain at this level or they go up?

Abhinandan Chaterjee : See, these two are very crucial factors. One is the crude price, and second is the demand and supply. The crude prices are still very high.

Prashanth : Right.

Abhinandan Chaterjee : And they need to be corrected at some point of time, although, some people are saying they will even go up from here, but as far as the PTA and MEG capacities are concerned, we will have sufficient capacities available, and that will make us comfortable in getting our raw material at lower prices.

Prashanth : Okay. Sir, what will be your realization per ton on a blended basis?

Abhinandan Chaterjee : Could you repeat your question please?

Prashanth : Realization per ton on a blended business.

Abhinandan Chaterjee : Prashanth, what do you mean by blended business.

Prashanth : Meaning like, if you take the total capacity, considering like the volume, total volumes?

Abhinandan Chaterjee : So, the total volumes is about 85,700 MT.

Prashanth : Okay. Thank you sir.

Moderator: Thank you very much sir. Next is from Sundaram Mutual Fund.

Bharat : Sir, this is Bharat here. Good afternoon, I just wanted to know like, is it true that chip based POY capacities are coming up in much bigger number in Asia?

Mr. Bhatia : See the chip-based capacities are not viable as you know, but in India lot of capacities have come up last year.

Bharat : Okay. So, typically like the value addition that happens in POY, will that be distorted because of these capacities?

Mr. Bhatia : In fact, these chip-based capacities, their cost of conversion is much higher than the CP people, which will be actually better off. But the duty of excise still remains high, and these people are trying to evade the duties some of the times, and the government is already aware of it, and if the duty correction takes place in future then these people have no future.

Bharat : Sir, another thing is on DTY, which has been dragged sometime back, what kind of value addition typically takes place in DTY?

Mr. Bhatia : It is about Rs. 10 to 12.

Bharat : Again, how is the competitive scenario in there?

Mr. Bhatia : You see, there are two types of markets. One is, you know, people who do not believe in the quality. And secondly corporate customers who believe in the quality. Indo Rama, you know, serves only two corporate customers mainly.

Bharat : Okay. Thank you.

Moderator : Thank you very much sir. Next is Mr. Chinmai from India Infoline.

Chinmai : Good afternoon sir. Sir, I would like to know what are your margins on the polyester chips and polyester yarn business?

Moderator : Mr. Chinmai are you on a speakerphone sir?

Chinmai : Yeah.

Moderator : Sir, please use your handset.

Chinmai : I just wanted to know what are your margins on the polyester chips and polyester yarn business?

Abhinandan Chaterjee : We would not like to disclose the actual margin things, these are strategic numbers.

Chinmai : Okay.

Abhinandan Chaterjee : Because these are very strategic to our business.

Chinmai : Okay. Because in general we saw that, at the end of, you know, your margins have shrunk but..

Abhinandan Chaterjee : We have generally shared the position, the margin position, but actually product wise we would not like to share them because they are very strategic.

Chinmai : Okay. So, basically what you are trying to say is that, this year's margins have just strong just because of this inventory evaluation.

Abhinandan Chaterjee : It is a one-time loss and it is over. Inventories are down to barest minimum.

Chinmai : So, going forward what kind of overall margins do you foresee, would it be a continuation of your FY05..?

Abhinandan Chaterjee : I would not like to get into a speculative mode and speculate on numbers because that is not right. We expect very healthy quarter from next quarter onwards and it will be consistent on quarter-to-quarter basis.

Chinmai : Okay. Thanks a lot sir.

Moderator : Thank you very much sir. Next is Mr. Bhargav from B&K Securities.

Bhargav : Good afternoon sir.

Abhinandan Chaterjee : Good afternoon.

Bhargav : Can you just tell me what would be the outlook on cotton prices going forward?

Mr. Bhatia : : See cotton prices this year were very low because of the extra availability which was there as compared to last year, and next year production also is going to be good, and the cotton prices will be almost same as this year. There would not be much appreciable gain.

Bhargav : As far as I understand there is a lot of correlation between the polyester yarn and cotton-based yarn, so do you see competition going forward from cotton-based yarns?

Mr. Bhatia : There is no competition between cotton and polyester yarn, it is the blend which matters. For example, people make polyester cotton yarns. So if the polyester price is right as compared to cotton, the percentage of polyester in the blend is higher. For example, 62:38, let us say polyester 62 cotton 38. If cotton is cheaper than polyester, they can go to you know 60 polyester and 40 cotton and then they go on reducing. These are economics which plays part in the blend.

Bhargav : Okay. Thank you.

Moderator : Thank you very much sir. Next is a follow-up from Mr. Nitin of MK shares.

Nitin : Sir, just a small thing, you gave me the value numbers of your sales. They added to be about Rs. 612 crore, is the balance.., because you reported some gross Rs. 572, is the Rs. 40 crore inter segmental sir, is it?

Abhinandan Chaterjee : : There are some waste sales, there is an excise duty impact on captive sales, they have really adjusted and eliminated.

Nitin : Because you reported 572 as gross sales.

Abhinandan Chaterjee : 572 as gross sales.

Nitin : And net sales are 419.

Abhinandan Chaterjee : I have given you a breakup of I think 632 crore

Nitin : 612 or something crore, I think, if I am not wrong, some 238, 247, 44, 76, 6.5...

Abhinandan Chaterjee : There are some merchant exports of 22 crore.

Nitin : Merchant exports.

Abhinandan Chaterjee : Yes. What we have done is we have bought some spun product from Indo Rama Textiles and exported them, so merchant export sales were 22 crore. So, that added up to 632 crore. There were waste sales of 1.5 crore. They are very small amounts.

Nitin : Okay. I understand that, but I mean to say reduction, 612 to 572, where as the 40 crore sale not been reported, that is what I am saying.

Abhinandan Chaterjee : That is inter-divisional sales.

Nitin : That is what I am asking, is it the interdivisional sales?

Abhinandan Chaterjee : Absolutely.

Nitin : Okay. Interdivisional sales will be basically what, POY actually going to DTY, is it?

Abhinandan Chaterjee : Yes.

Nitin : Okay. Thank you.

Moderator : Thank you very much sir. Participants who wish to ask questions may please press *1. Next is a follow-up from Mr. Dhawal of Angel Broking.

Mr. Dhawal : Hello sir. Sir, could you please brief us about the Indo Rama Petrochemicals. Indo Rama Synthetics would have a 33% stake in the same... Hello?

Abhinandan Chaterjee : Yes, please.

Mr. Dhawal : And sir, how has mean the agreement, as in the, it is going to purchase the whole of the power from Indo Rama Petrochemicals or?

Abhinandan Chaterjee : Yes, Indo Rama Petrochemicals will be supplying power to Indo Rama Synthetics at a rate, which will be substantially cheaper than the Maharashtra State Electricity Board rates.

Mr. Dhawal : Okay. And sir, is it a long-term contract kind of a thing?

Abhinandan Chaterjee : Long-term contract.

Mr. Dhawal : Sir, could you please tell me the tenure?

Abhinandan Chaterjee : For all practical purposes, these are contracts in perpetuity, these keep on getting renewed, but I mean, so contracts in perpetuity do not have a tenure, but I mean, any contract more than five years is long term.

Mr. Dhawal : Okay. Thank you sir.

Moderator : Thank you very much sir. Next is a follow up from Mr. Bharat of Sundaram Mutual Fund.

Bharat : Sir, just wanted to understand the working capital cycle, like in case of raw materials, what kind of lead time do you maintain usually?

Mr Bhatia : See on the local raw material, we maintain inventory of three days at the plant. And in case it is imports then 15 days.

Bharat : Okay fine sir. Thank you.

Moderator : Thank you very much sir. Next is a follow-up from Mr. Nitin of MK shares.

Nitin : Sir, what do you think the FDY sales for the whole year, because you know, I was just seeing that the FDY sales were about 4,854, how do you think in terms of the whole year, would they make a larger share this year or what?

Mr Bhatia : See, our production is as informed you is between 1200 to 1300 tons per month. And end of this month, we will have this much as an inventory. So this is what we can sell.

Nitin : Okay, this is what you can sell. So, do you think the trend is better in the FDY going forward?

Abhinandan Chaterjee : The FDY Q1, we ourselves were higher by 8%.

Nitin : Yeah, sorry, okay. About Rs. 90-91 is your realization in FDY, I believe. Do you think that kind of number can be there for the next whole year or lower than that?

Mr. Bhatia : I think the present margins will be maintained.

Nitin : Okay. Thank you.

Moderator : Thank you very much sir. Participants who wish to ask questions, may please press *1. Next is a follow-up from Mr. Chinmai of India Infoline.

Chinmai : Hello sir. I would like to know the volumes of last, Q1 of last year?

Abhinandan Chaterjee : Are you talking of production volumes or sales volumes?

Chinmai : Sales volumes.

Abhinandan Chaterjee : Sales volume of last year, PSF was 34,700, POY was 23,719, FDY was 4,499, DTY was 9,507, chips was 3,134.

Chinmai : So, this would add up to our total volumes?

Abhinandan Chaterjee : Yes, please.

Chinmai : And this quarter?

Abhinandan Chaterjee : I have already passed on these numbers.

Chinmai : Yeah, sorry, thanks very much.

Moderator : Thank you very much sir. Participants who wish to ask questions may please press *1. Next is a follow-up from Mr. Nitin of MK shares.

Nitin : Sir, what was the exports this quarter? Because you had large exports, you know, in FY05, you had large exports about Rs. 140 crore, so if you can just tell me where did that increased exports go to, and what has been the exports this quarter?

Abhinandan Chaterjee : Total exports this quarter is about 30 crore.

Nitin : 30 crore. Sir, what product is that which you are exporting?

Abhinandan Chaterjee : We have exported DTY.

Nitin : DTY?

Abhinandan Chaterjee : Yeah, about 8 crore.

Nitin : DTY of 8 cores, and the balance would be..

Abhinandan Chaterjee : As I told you, merchant exports we were doing.

Nitin : Merchant exports, okay. The increased exports last year were Rs. 139 crore, you know, more or less double from the...

Abhinandan Chaterjee : This year also we are expecting a healthy growth in our exports.

Nitin : About how much, 200 crore could be a possibility?

Abhinandan Chaterjee : Again, I would not like to get into a commitment on a speculative mode, we are expecting a very healthy growth on our export numbers this year too.

Nitin : Okay sir. Thank you.

Moderator : Thank you very much sir. Participants who wish to ask questions may please press *1. Participants who wish to ask questions may please press *1. At this moment, there are no further questions from participants. I would like to hand over the floor to Mr. Abhinandan Chaterjee for final remarks.

Abhinandan Chaterjee : Thank you. I would like to take this opportunity of thanking you all for joining on this Indo Rama Synthetics Q1 teleconference call. I sincerely hope that this was useful to all of you, and we look forward to meeting you all during our post-Q2 meeting in Mumbai four months down the line. Thank you.