

# INDO RAMA

## Indo Rama Synthetics (India) Ltd.

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### Q1 FY 2010 Investors/Analysts Conference Call Transcript

**Moderator:** Ladies and gentlemen, good evening and welcome to the Indo Rama Synthetics India Limited Q1 FY10 Results Conference Call. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference call, please signal an operator by pressing \* and then 0 on your touch-tone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Gavin Desa of Citigate Dewe Rogerson; thank you and over to you, Mr. Desa.

**Gavin Desa:** Thank you, Rochelle. Welcome everybody to Indo Rama Synthetics India Limited's Q1 FY10 earnings call. We have with us Mr. Ravindra S. Singhvi, the Chief Financial Officer and President (Finance) of the Company, and the senior colleagues of the management team. We will begin this conference with opening remarks from Mr. Singhvi after which we will have an interactive Q&A session. Before we begin, I would like to mention that some statements that are made during this call may be forward looking in nature and a disclaimer to this effect has been sent to you in the conference call invite. May I now request Mr. Singhvi to address the conference; over to you, Sir.

**Ravindra S. Singhvi:** I welcome all the participants, to our earnings call for the first quarter of FY 2010; 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 all questions that you may have. Net sales in Q1 FY10 amounted to Rs 687.24 crore, down by 14% on year-on-year basis. Operating EBITDA stood at Rs 85.96 crore as compared to Rs 66.98 crore in Q1 FY09, an increase of 28%. Our operating cash profit for the current quarter is Rs 56.76 crore as against Rs 2.11 crore in the corresponding quarter last year. Net profit for the quarter is Rs 15.26 crore as against net loss of Rs 20.81 crore in Q1 FY09. Our performance in this quarter is a result of improvement in margins for PSF and PFY coupled with the significant return from power business and the continuing initiatives we are taking to reduce cost and drive efficiencies.

Our power business continues to perform well, contributing strongly to the overall business of the Company. During the quarter under review, total revenues from power business amounted to Rs 93.9 crore, a 59% year-on-year increase and the operating profit amounted to Rs 30.7 crore. The government has increased the excise duty from 4% to 8% in the last budget, which has now been

accepted by the market and sales of polyester industry has not been impacted on this account as the entire duty is being passed over to the customer.

Our long-term outlook for the textile industry continues to be strong. The overall macroeconomic environment is improving and we believe that combined with the healthy contribution from our power business, we are well poised to create value and drive for the growth. This brings me to the end of my discussion, and we will now be happy to answer any questions that you may have. Thank you.

**Moderator:** Thank you very much, sir. Ladies and gentlemen, we will now begin the question and answer session. Our first question is from the line of Vinay from CRISIL. Please go ahead.

**Vinay:** Can you explain the reason of the fall in polyester chips production for this quarter?

**Ravindra S. Singhvi:** The chips production for this quarter vis-à-vis Q1 FY09 has been negligible because the chip was not enough to justify productions. So we have produced a very small quantity of chips during this quarter.

**Vinay:** Are you internally processing the chips?

**Ravindra S. Singhvi:** No. So far we do not have any facility for processing of the chips. We are producing value added products. In fact, in June 2008, we had produced almost 14,000 tons in the quarter whereas in the current quarter we have produced only 1,700.

**Gavin Desa:** Would you like to elaborate on our plans for the power business going forward?

**Ravindra S. Singhvi:** At the outset, I would say that our power business is doing very well and this year we have been able to increase our evacuation capacity of power from 24 MW last year to 50 MW now. This was done with effect from January 2009. So, now our evacuation power has increased significantly and we can go to 50 MW. As far as the power business is concerned being in Maharashtra and just sitting on the hub of the coal mine which is just 150 kilometers away from our facility, we get coal at very competitive and cheaper prices as compared to other producers. We also supply power to Maharashtra because it is a power-hungry state and its shortfall in power is the largest. Therefore, we get good price from Maharashtra. For our power business, we are also contemplating expanding our capacity and for this we are already in the process of enhancing our capacity by 48 MW.

**Moderator:** Thank you. Our next question is from the line of Shuja Siddiqui of Societe Generale Bank. Please go ahead.

**Shuja Siddiqui:** What is the level of capacity utilization that is currently being operated at?

**Ravindra S. Singhvi:** We are presently utilizing 80% to 85% of our capacity.

**Shuja Siddiqui:** In last 3-4 quarters?

**Ravindra S. Singhvi:** In the last two quarters, we have been utilizing more than 80% of our capacity. But before that in July- Sep 08 and Oct – Dec 08, the capacity utilization was very less because the scenario was not encouraging to produce goods and volatility in the raw material prices, crude prices, finished goods prices, and the sales volumes was also poor. Therefore, we had to cut down our production. So from January onward things are looking up.

**Shuja Siddiqui:** Can you throw some light on your raw material prices and how you do you see the supply side?

**Ravindra S. Singhvi:** From our team we have, our Chief for Procurement, Mr. C.L Choudhary, he would like to give you reply.

**C.L.Choudhary:** Basically, the outlook for both key raw materials for Polyester i.e., PTA and MEG, barring this short-term situation, we foresee that it is going to be a buyer's market now onwards because a lot of capacities are getting added. There are only small hiccups in terms of new capacities coming into production. There are some delays here and there because of which prices have not yet come down substantially but we foresee that the raw material prices will be under pressure going forward(currently trading PTA 850 and MEG 650), and it will add to the margins of the Company.

**Shuja Siddiqui:** What about the outlook on finished product prices?

**Ravindra S. Singhvi:** The outlook on finished goods prices is based on demand and supply positions of the domestic market, raw material prices, and the overall business situation. As of now, we see that the things are looking up, and the polyester fiber is most economically placed vis-à-vis the other fibres like cotton and viscose. On cotton production we have seen that the overall production in the current year has reduced as compared to the previous year and signs are still not encouraging as the monsoon is unfavorable. And we hear that the crop size will be less. The viscose prices are high because natural woods prices are high. Viscose prices have been increasing every quarter. Therefore, looking at that, we are very favorably placed as compared to other competitive fibres. We also feel that since the raw material situation is improving as a result of the additional capacities domestically as well as internationally, so this will give us some benefit in the margins in the coming months.

**Shuja Siddiqui:** You reported an EBITDA of about Rs 86 crore for this quarter. Can we assume that this run rate will be maintained for at least two or three quarters going forward or is it likely to remain a little lower or higher given the current?

**Ravindra S. Singhvi:** It is very difficult to say, but we feel that things are looking up and we hope to maintain this performance.

**Shuja Siddiqui:** What is the level of debt on the balance sheet at this point in time?

**Ravindra S. Singhvi:** Total debt is around Rs 800 crore.

**Moderator:** Thank you. Our next question is from the line of Miten Lathia of HDFC Mutual Fund. Please go ahead.

**Miten Lathia:** What does the Forex loss of Rs 109 million pertain to? Is there some way we can do away with it in the future or is it a part of some loans that we have taken?

**Ravindra S. Singhvi:** If you compare this loss with the previous year's loss, it is much less because things have changed and it was happened primarily because the company had followed hedging policy for their import payments in view of mitigating the exchange volatility prevailing in the market.

**Mithen Lathia:** Is this not pertaining to any loans that are there on the books?

**Ravindra S. Singhvi:** No, because the exposure on the loans which is beyond one year goes through the balance sheet. The adjustment for gain or loss is adjusted in the balance sheet.

**Mithen Lathia:** As a company which is involved in turning raw material into finished product, would it not be a better proposition for us to adopt the fully hedged approach rather than keeping open-ended exposure?

**Ravindra S. Singhvi:** As of now, we have already hedged our raw material exposure.

**Miten Lathia:** Are you trying to say that you know what raw materials you are going to import and hence to that extent you lock in your liability on that import of raw material?

**Ravindra S. Singhvi:** Yes.

**Miten Lathia:** On the finished goods side, whatever exports we are expecting to make on the fiber or the yarn, have we hedged that or not?

**Ravindra S. Singhvi:** We keep reviewing the situation from time to time, and whenever we feel that our exports need to be hedged, we take a decision accordingly.

**Miten Lathia:** Then it would essentially become more of an operating item rather than an exceptional item because it's a business decision that you have been taking at all points in time.

**Ravindra S. Singhvi:** It depends on one's own interpretation. In our case all gains or losses are accounted for exceptional items. We follow the accounting standards as prescribed by the ICAI as well as by the Government.

**Miten Lathia:** Are we hitting close to 85% to 90% PLF or are we much lower than that?

**Ravindra Singhvi:** As of now we are almost utilizing the capacity up to 80 – 85%.

**Miten Lathia:** Will the furnace oil based capacity would really run the risk of becoming slightly expensive as crude prices keep on moving up. Also is there a way we can convert to gas based or is it not really convertible?

**Ravindra Singhvi:** There is no gas line in Nagpur area and is neither going to come in short term. Of course, it could be quite competitive if we consume gas but then this option is not there as of now.

**Miten Lathia:** Currently, you must be finding it worthwhile to produce power from furnace oil, but would it be very expensive at higher prices? In a couple of years' time, will you be able to get gas?

**Ravindra S. Singhvi:** Yes. We are keeping all options open. And we keep reviewing the situation and whenever the opportunity comes, we will see how best we can deal with power capacity. We will keep reviewing the situation.

**Miten Lathia:** How old is the furnace oil based plant?

**Ravindra S. Singhvi:** Almost 14 to 15 years.

**Miten Lathia:** So there is more sense to do a Greenfield than just converting this one.

**Ravindra S. Singhvi:** Yes.

**Moderator:** Thank you. We have a follow-up question from the line of Vinay Chhawchharia of CRISIL. Please go ahead.

**Vinay:** What is your outlook on the PSF market?

**Ravindra S. Singhvi:** Outlook on the PSF market is quite hopeful; in the sense that no new capacities are coming and fiber being cheapest as compared to all the alternate fibers available, so fiber will do well in the coming months and margins will be improved. Secondly, the cotton crop is not going to be good this year, so we feel that cotton prices will continue to be strong and fiber prices are as such much lesser than the past year's peak. Therefore, we are hopeful that it will give us good return.

**Vinay:** The cotton inventory for India is very high for the last cotton season and that will be carried forward for this year and the cotton production is not that significantly down.

**Ravindra S. Singhvi:** The cotton inventory is high because the exports could not take place as the Government has increased the MSP and whatever cotton was to be purchased was purchased by the Government agencies. Instead of going into the international market, the cotton was accumulated with the Government agencies at a very high price. In fact, the cotton price in India was higher than the international prices. Therefore, the export could not take place. Once this normalizes, the cotton export will take place again and coupled with the lower growth size of crop, cotton will remain expensive. So, fiber stands a good chance. The other alternate fiber is Viscose, where wood prices are much, higher than the polyester fiber. So, we have a competitive edge compared to the other alternate fiber and its lower cost will help us impregnate the new markets.

**Vinay:** What is the price range that you are expecting for cotton and PSF for the financial year 09-10?

**Ravindra S. Singhvi:** We do not see that cotton prices will come down. If you look at the present cotton prices, the clean cotton costs are somewhere around 86-87 rupees. And the fiber presently costs about 62-63 rupees. So, in that way fiber is more competitive as compared to cotton.

**Vinay:** A lot of new players are coming up with POY capacities. So, how do you see the demand-supply situations for the next two years?

**Ravindra S. Singhvi:** As of now the demand-supply is fairly balanced. The new players in POY segment are coming up only with few machines which are captive users basically and not in the way you are anticipating. Also, these machines products are not coming in the open market. Therefore whatever new capacities are coming would not impact the market. POY as of now is also balanced and whatever growth comes, that will improve the market.

**Vinay:** Sir, what would be the average operating rate for the industry for the last year 08-09?

**Ravindra S. Singhvi:** It has been very turbulent last year, because in the second part of 2008 the capacity utilization reduced to 70% or so. But lately in the current year January onwards the capacity utilization has been increasing and presently I would say that the capacity utilization is about 87 to 90% for POY.

**Moderator:** Thank you. There are no further questions in the question queue. Sir, would you like to add any comments before we close the call?

**Ravindra S. Singhvi:** We would like to thank everybody who is online and we end our comments that we hope to live with the expectations for the next year.