



INDO RAMA SYNTHETICS LIMITED
Analysts/Investors Conference Call
January 20, 2006

Moderator: Good evening Ladies and Gentlemen. I am Parimala, the moderator, for this conference. Welcome to the Indo Rama Synthetics conference call. For the duration of the presentation, all participants' 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. Gavin Desa of Citigate Dewe Rogerson. Thank and over to Mr. Desa.

Gavin Desa: Thank you Parimala. Good Afternoon Ladies and Gentlemen and thank you for joining us to discuss Indo Rama Synthetics results for the quarter and nine months ended December 31, 2005. On the call with us we have, Mr. Abhinandan Chatterjee, the Chief Financial Officer; Mr. G.P. Bhatia, the President, Polyester; Mr. Subash Katyal, Vice President, Corporate Finance and Accounts; and Mr. Amit Jain, Deputy General Manger, Investment and Investor Relations.

Before we start this call, I would like to mention that some of the statements and discussions during the call might be forward looking. I request you all to refer to the Company's nine monthly and quarterly results release which contains a statement in this regard. Now, I would like to invite Mr. Abhinandan Chatterjee to take this call forward.

Abhinandan Chatterjee: Thank you Gavin. A warm welcome to all of you on this call. It gives me great pleasure to have you on the call with us. Before I begin I must mention that our Chairman and Managing Director Mr. O. P. Lohia would have also liked to be here on this call with us, but is not available due to some pre-commitment already made.

I trust that you have already received the e-mails of our results and the communications that accompanied them. To quickly recap, our net sales for the quarter amounted to Rs. 398 crore while the EBITDA stood at Rs. 37.8 crore and the PAT at Rs. 4.6 crore.

Let me take this opportunity to cover some of the key developments during the period under the review. Thereafter, we will be happy to have an interactive forum where we can discuss questions that you may have in greater detail.

Our sales comprise 63% of higher value PSF and POY. Sales for the quarter were lowered by 7.5% compared to corresponding quarter last year at 60,105 MT. This is attributable to the market dynamics of demand and supply at any given point of time. However, sales for nine months increased by 3% in volume terms, while polyester demand in general improved on the back of hard cotton prices, prices of POY declined due the entry of several small players. We, however, believe that the margin erosion will make it unviable for many of these smaller units to operate, and as a result going forward, it is expected that consolidation is likely to take place in the POY market, which will also bring stability and sustainability in the market place in the long run. From an operating perspective, prices of our key raw materials, PTA and MEG increased on a sequential quarter basis, although they were lower compared to the corresponding quarter last year. Higher prices of furnace oil and the foreign exchange loss due to the higher US dollar-rupee volatility during the quarter further dented our profitability during the quarter.

Our confidence in the polyester sector prospects and the outlook for the business over the longer term continues to be strong. Demand growth is driven by a combination of better

volume absorption in the domestic markets and increasing level of international share. Use of polyester especially in the home furnishing segment is also witnessing a steady increase. The capacity expansion project, which doubles our operating capacity from 300,000 tonnes per annum to 600,000 tonnes per annum being implemented in Butibori is also on track both from a time and financial budget perspective. The plant and machinery from Zimmer and Barmag have started arriving and are currently under installation. The new capacity is expected to be commissioned in a phased manner from June 2006.

This brings me to the end of my commentary and we would now be happy to discuss any specific details or questions, which you may like to pose. Thank you.

Moderator: We will now begin the Q&A interactive session. First in line we have Ms. Priya Kansara from Business Standard.

Priya Kansara: I just wanted to know that despite the decline of around 12% in the raw materials, the net sales margins have declined. Could you tell the reason why you could not sell the products effectively?

Abhinandan Chatterjee: As I mentioned in my opening commentary, the raw material prices of PTA and MEG were higher on a sequential quarter-on-quarter basis and, so it is incorrect to say that the raw material prices were low.

Priya Kansara: Okay fine.

Moderator: Thank you very much Madam. Next we have Mr. S Bharath from Sundaram Mutual Fund, over to you Sir.

S Bharath: Good evening Sir. Just a couple of points on the expenditure side, like the other expenditure has gone up from around 12% to around 17%, is that on account of the furnace oil cost or would it include something else?

Abhinandan Chatterjee: The furnace oil and the power & fuel cost during the quarter has been higher to the tune to Rs. 7.73 crore and the foreign exchange loss during the quarter has been Rs. 7.55 crore.

S Bharath: My other question is pertaining to Indo Rama's project in Thailand, is that as per schedule? And when is it expected to start committing it supplies?

Abhinandan Chatterjee: The PTA plant of Indo Rama Thailand is expected to commence commercial production from March 2006 onwards.

S Bharath: Okay and lastly on the industry as a whole, how do you see the polyester versus cotton story developing? I am given to understand is that the off take has not been as robust as it was earlier. So is that primarily on account of higher than expected cotton output or is there some other reason behind it?

Abhinandan Chatterjee: As evident the cotton futures are showing a higher trend. Going forward also, we expect the cotton future prices to firm up. A duty rationalization is expected to come up to remove the inter-fiber duty anomalies in the next budget, and that should substantially reduce the price gap between cotton and the synthetic fibers. So going forward, I think the situation looks bright and quite bullish.

S Bharath: Okay, thank you

Moderator: Thank you Mr. Bharath. Next we have Mr. Sampath Reddy from Voyager Investment Advisors, over to you Sir.

Sampath Reddy: You had mentioned earlier that a lot of smaller companies have added capacities in the POY. Could you name those companies which have added capacities in the last quarter and how much is the capacity increment has taken place?

G.P.Bhatia: Off hand, I cannot tell this, but there are lots of people like Bilosa and Suryalakshmi who have put up capacity in the last two quarters. , However, they have no margins available to them since they have imported this secondhand machinery mainly from Korea and have been operating off and on. And in spite of that they wanted to operate and sell because they have just started the plant.

Sampath Reddy: Right, so by when do you think this surplus capacity will be absorbed? Will this situation continue for a few more quarters?

Abhinandan Chatterjee: Right now, the margins at which these players are operating in, is not sustainable over a long period of time, so it is only a matter of time. It is very difficult for us to give a defined time span, but it is a matter of time before consolidation starts taking place and they wind up. A shakeout period in the POY market has to be there.

Sampath Reddy: Okay fine. Thank you.

Moderator: Thank you Mr. Reddy. Next we have Ms. Priya Ayyar from IDBI Capital, over to you Madam.

Priya Ayyar: Continuing with the question asked by the previous person, you are saying that you expect a shakeout, but newer players like Raj Rayon are adding capacity in POY and are confident of being able to sell the same. , So do you think it is a short-term phenomenon or will it go on for like two or three years?

Abhinandan Chatterjee: See as I said, it is very difficult for us to define a time span, but after paying all the duties at this level, they are not making any money. So it depends on their financial muscle to see how long can they survive and sustain.

Priya Ayyar: Okay. And can you give us an idea about the current trend in PTA and MEG prices?

G.P. Bhatia: The prices of PTA and MEG are around \$850 each and they are likely to be around these numbers for the next two months or so. But from April 2006 onwards a lot of new capacities are being added in both PTA and MEG and the prices are likely to fall from there.

Priya Ayyar: Okay and how much fall do you see from these levels?

G.P. Bhatia: We expect that from June and July onwards both PTA and MEG should be in the range of \$700 to \$750.

Priya Ayyar: Okay, and for the last half year you have said that your value-added products comprise about 5% of your turnover. Can you give us breakup of that for this quarter as well?

Abhinandan Chatterjee: Are you looking for the sales volume?

Priya Ayyar: Yes both volume and its percentage to the total turnover. .

Abhinandan Chatterjee: In this quarter PSF was 28,355 metric tonnes , POY was 11,940 metric tonnes and FDY was 2,307 metric tonnes. In the previous quarter PSF was 33,778 metric, tones POY was 16,566 metric tones and FDY was 3,356 metric tones.

Priya Ayyar: Okay. Thank you very much.

Moderator: Thank you Madam. Next in line, we have Mr. Sunil Agarwal from SBI Mutual Fund, over to you Sir.

Sunil Agarwal: Good evening Sir. I understand your sales are falling by around 13%, both in sequential and y-o-y terms, but the fall in volumes that we are seeing on a sequential basis is around 7.5%. So I understand that this is accounted for by price. Could you tell us what is the extent of the price fall that have you experienced? Are we seeing weakness in other segments also besides POY?

Abhinandan Chatterjee: No that is DTY whose prices were somewhat lower.

Sunil Agarwal: Okay and what was volume for DTY?

Abhinandan Chatterjee: The total yarn sales during the quarter were 15,505 tonnes against 10,730 tonnes.

Sunil Agarwal: So your yarn sales have increased. Okay thanks

Moderator: Thank you Mr. Sunil. Next we have Mr. Amit Nigam from ABN AMRO Asset Management, over to you Sir.

Amit Nigam: There was some kind of labor unrest which happened; could you just throw some more light on that?

Abhinandan Chatterjee: Yes there was a little bit of unfortunate labor unrest in our factory that did not affect our sales in anyway, but very marginally affected our production.

Amit Nigam: Now that we have finished nine months of our operations, would you like to revise your dividend guidance?

Abhinandan Chatterjee: I would not like to speculate on our dividend at this conference call because it is strictly a prerogative of the Board of Directors, but our policy is to maintain a very feasible and practical dividend as far as we can.

Amit Nigam: Fine that is it. Thank you.

Moderator: Thank you Mr. Nigam. Next we have Mr. Manish Bhandari from ING Vysya, over to you Sir.

Manish Bhandari: Good evening, You had mentioned earlier about a new capacity that is coming up. Can you throw some light on what percentage of capacity would be added in the system?

G.P. Bhatia: In India this IOC PTA plant with 530,000 tonne capacity is coming up sometime at the end of March or beginning April. Another plant of Indo Rama is coming up in Thailand with a capacity of 600,000 tonnes. . And then there is another PTA plant coming up in China. On the MEG side 600,000 tonne plant is coming up sometime in May or June this year in Saudi Arabia. In Thailand, another MEG plant is coming up with a capacity of 300,000 tonnes. In Iran, one PTA and one MEG plant are coming up by middle of this year, with a capacity of about 320,000 tonnes each. In China also another MEG plant is coming up with the capacity of 300 tonnes. . So I think from middle of this year we will have enough capacities of PTA and MEG being added.

Manish Bhandari: So that will be close to 10 to 15% of the existing capacity that should add up to be?

G.P. Bhatia: Yes, around 12 to 15%.

Manish Bhandari: There is enough capacity that is being added on your final product also, so how do you see the pricing trend in that area?

G.P. Bhatia: The pricing has to be aggressive because, once Reliance capacities are being increased in this quarter and Indo Rama capacity will be increasing from June to September 2006 onwards by 200 tonnes per day each month. Then Bombay Dyeing PSF capacity may also increase by end of third of or beginning of fourth quarter. So the prices have to be aggressive, but the raw material prices are likely to be reasonable. And since there is expectation of custom and excise duty correction in the coming budget, the margins are likely to improve.

Abhinandan Chatterjee: In fact to supplement what Mr. Bhatia has just said, our cost of production from the new plant which is under commissioning is going to be cheaper than our current cost of production. That is also going to give us adequate insulation to face any aggressive pricing.

Manish Bhandari: How much would that be in absolute numbers?

G.P. Bhatia: I think our cost of production from the new plant is going to be at least Rs. 2 cheaper than the existing plant.

Manish Bhandari: Okay, thanks a lot.

Moderator: Thank you Mr. Manish. Next is a follow-up question from Mr. Amit Nigam of ABN AMRO Asset Management, over to you Sir.

Amit Nigam: I just had one query about how the forex loss of Rs. 7.55 crore booked? Is this some translation loss?

Abhinandan Chatterjee: We incurred a forex loss of Rs. 4.63 crore on imports, Rs. 2.42 crore on foreign currency loans, and on forward contracts we lost about Rs. 50 lakhs. So that makes it approximately Rs. 7.55 crore.

Amit Nigam: Okay, so in the coming quarter for example if the rupee behaves in the other direction, would some of it be reversed?

Abhinandan Chatterjee: Yes, absolutely.

Amit Nigam: Okay fine thanks. Thank you.

Moderator: Thank you Mr. Nigam. Next we have Ms. Latha from Birla Sunlife Insurance, over to you Madam.

Latha: Sir you mentioned that your capacities that are coming up in June 2006 are going to come in a phased manner. Could you give us the break up for all the months?.

Abhinandan Chatterjee: The break up for each month from June to September 2006 is 200 tonnes per day.

Latha: All right, my other question was on what you mentioned on the consolidation that is possible because of the entry of new players. Did you mean that Indo Rama as the market leader would be in a position to absorb these capacities which are coming up? What kind of synergies do you see from anybody absorbing them because the net supply will be about the same, you are still going to see some pressure on POY prices, what will be the logic or the synergies that you hope to achieve?

G.P. Bhatia: We certainly do not expect that from day one, we will start operating at 100% of the capacity utilization. We shall ramp up our capacity utilization in a phased manner, but since the cost of production from the new plant would be lower we shall be producing more from the new plant and less from the existing plant.

Latha: Yes Sir that's true for your own capacity addition, but when you are talking about capacity addition in the system; the new capacities coming from these smaller players who have imported the machinery wherein you had mentioned that you anticipate some kind of shakeout which will give you an opportunity for consolidation. I wanted to know what kind of synergies you would want to achieve by absorbing these smaller players. Since the net result according to me would be is that there will still be some pressure on POY prices since the net capacity in the system will remain the same.

G.P. Bhatia: You are right there will be pressure on POY prices and it will be survival of the fittest.

Latha: So what would be the opportunity for consolidation then?

G.P. Bhatia: It's the volume, which will make a player survive. These smaller players mentioned earlier like the Bilosa and Raj Rayon, have a smaller capacity to produce POY and their margins are lesser, so obviously the small players will have to close shop. Larger players can survive even if you take let's say a Rs. 1 hit to contribution, but still the volume will take us through.

Latha: You are anyways adding your own capacity, so do you see any chance that you would be in position to absorb these players then?

G. P. Bhatia: There will be two main drivers as Mr. Chatterjee had told you in the beginning, One of the main drivers is the duty correction. We expect duty correction this time in the

budget so that fiber begins competing with natural fibers on a level plane. The demand will then pick up. Now a large player can absorb the slight reduction in the margin and squeeze their margin which will hurt the smaller players, and that's why they will close shop.

Latha: Yes Sir, I am trying to understand that once your capacities stabilize, you get to 600,000 metric tonnes, would you still look to add further because you have these new players leaving the system?

Abhinandan Chatterjee: We are open to any business decision, which makes commercial sense. If it makes sense for us, we will take a view at that time. If we find that it does not make sense because most of the smaller players are installing secondhand machinery from Korea while we have gone for the best technology in the world, we will not look at it. So it must make business sense for us.

G.P. Bhatia: The quality of the product should also make sense to us.

Latha: All right Sir, thank you very much.

Moderator: Thank you madam. Next we have Mr. Dhawal Doshi from Sharekhan, over to you Sir.

Dhawal Doshi: Hello Sir. . I would like to know if we have firmed up any plans to utilize the funds raised through the FCCB issue which we had at the end of last quarter.

Abhinandan Chatterjee: We have not come up with any FCCB issue and there is no plan as of now to go for an FCCB issue.

Dhawal Doshi: Okay. You mentioned that there was a fall in the POY prices in the current quarter on a sequential basis, so could I know the percentage fall in the POY prices?

Abhinandan Chatterjee: POY prices which were about Rs. 71.60 as of end September on an average stood at approximately Rs. 63 as at end December.

Dhawal Doshi: Okay so you are saying a fall of Rs. 8?

Abhinandan Chatterjee: Yes.

Dhawal Doshi: Okay and Sir correspondingly there was an increase in the PTA and the MEG prices, is that right?

Abhinandan Chatterjee: Yes.

Dhawal Doshi: Could you give the PTA and MEG prices too?

Abhinandan Chatterjee: The PTA average price in Q2 was approximately Rs. 36.31 per kg and in Q3 it was Rs. 40.28 per kg. The MEG average price in Q2 was Rs. 40.33 per kg and in Q3 it was Rs. 44.8 per kg.

Dhawal Doshi: Sir could you please repeat the capacity additions in PTA and the MEG that are coming up?

G.P. Bhatia: The IOC PTA plant that is being commissioned by the end of March beginning April has a capacity is 530,000 tonnes per annum.

Dhawal Doshi: Okay, and is there going to be a plant in China also?

G.P. Bhatia: Yes in China also a plant is getting commissioned by second quarter of this year and on the MEG side a SABIC plant of 600 KT is likely to come in May for a PTA plant too, in the middle of this month. So I think middle of this year, we will have enough capacity

Amit Jain: And Reliance is also coming up with its capacity of PTA.

Dhawal Doshi: Okay, thank you very much Sir.

Moderator: Thank you Mr. Doshi. Next we have Ms. Rupa Shah from Network Stockbroking, over to madam.

Rupa Shah: How much of the total debt of Rs. 527 crore, is spent for capacity expansion for this quarter?

Subhash Katyal: We have incurred an amount of Rs. 253 crore on the new project. And of the total debt figure that you have mentioned, Rs. 132 has been taken for the capacity expansion so far.

Rupa Shah: Okay Sir.

Moderator: Thank you Madam. Next in line, we have Mr. Jigar Valia from Parag Parikh, over to you Sir.

Jigar Valia: Good evening Sir. I would like to know what could be the impact of VAT in case it is implemented this year in the budget. Of course the polyester industry is looking at lot of duty correction but VAT could be another damaging?

Abhinandan Chatterjee: VAT is already there in the state of Maharashtra and it has no impact on our business.

Subhash Katyal: VAT is a MODVATable item and it has already been implemented in the states where we are located. Besides, VAT has nothing to do with the duty correction. That duty correction is another item.

Jigar Valia: True, that's very true.

Abhinandan Chatterjee: And it is a state subject. The duty correction that we are talking of here is central subjects.

Jigar Valia: What is the difference between you and the other smaller players who are getting POY via the batch processes, you are all basically larger players into continuous process. So what is the product difference like or if you can tell me the difference in terms of the cost of production between the two processes?

G.P. Bhatia: See one is the quality. The quality from the continuous polymer production is that much better than the batch process. Secondly all these small players are in the fine

denier only. They cannot produce coarser denier, and the cost of production is definitely much higher than the continuous polymer producers.

Jigar Valia: Can you tell us in terms of numbers and how much would be the difference in terms of cost of production?

G.P. Bhatia: The cost of production should be higher by Rs. 3 to 4 a kg.

Jigar Valia: Thank you Sir.

Moderator: Thank you Mr. Valia. At this moment, there are no further questions from participants. I would like to hand over the floor to Mr. Abhinandan Chatterjee for final remarks, over to you Sir.

Abhinandan Chatterjee: Thank you. This quarter was a very challenging quarter for us, but going forward, we find there is a combination of factors that we have already talked about like the fiscal corrections, the greater availability of raw materials, our own new capacity coming into force, and the falling cost of production is definitely going to help the business. We continue to be bullish on the future of polyester industry in India. If you have any further questions, you are free to get in touch with us, but I would like to take this opportunity of thanking you for participating in this conference call. Thank you.

Moderator: Thank you Sir. Ladies and Gentlemen, thank you for choosing WebEx Conferencing Service. That concludes this conference call. Thank you for your participation. You may now disconnect your lines. Thank you and have a nice evening.
