

**Investors/Analysts Conference Call****16th July 2007****Moderator:**

Good evening ladies and gentlemen. I'm Priya, moderator for this conference. Welcome to the conference call of Indo Rama Synthetics. We have with us today the management team of Indo Rama Synthetics. At this moment all participants are in listen only mode. Later, we will conduct a question and answer session. At that time if you have a question, please press \* and 1 on your telephone keypad. Please note this conference is recorded. I would now like to hand over the conference to Mr. Gavin Desa of Citigate.

**Gavin Desa:**

Thank you Priya. Good afternoon everybody. Welcome to Indo Rama Synthetics Q1FY08 conference call. On the call we have with us Mr. Abhinandan Chatterjee, the CFO, Mr. R. S Singhvi, President, Polyester, Mr. G. P. Bhatia, President, Corporate. Before we begin I would like to state that some of the statements made in today's discussions may be forward looking in nature and may involve risks and uncertainties. Now I would like to invite Mr. Abhinandan Chatterjee to take this forward.

**Abhinandan Chatterjee:**

Thank you Gavin. A warm welcome to you all. I trust that you have received our results and the communication that accompanied them. To quickly recap, our net sales for the quarter amounted to Rs.680 crore, EBITDA stood at 57.2 crore and PAT was 2.3 crore. Our sales increased in both the domestic and the export markets. The domestic market sales were 29% higher and the export sales were 199% higher compared to Q1 last year in value terms. We expect this trend to continue given the recent doubling up of our capacities and also our ability to place a significant portion of the incremental production in the market place given the healthy demand for our products. Let me take this opportunity to cover some of the key developments during the period under review. Thereafter, we will be happy to have an interactive forum where we can discuss questions that you may have in more detail.

The sales during the first quarter increased 58% to 112,477 metric tons as against the 71,000 metric tons same quarter last year. Production levels of PSF and POY were 46,633 metric tons and 48,798 metric tons respectively, higher by 21% and 82%. Finished goods inventories as on June 30, 2007 were higher on a year on year basis at 19,866 metric tons. We expect this to come

down given our marketing strength to place the increased production in the market place and the current buoyant demand environment. Our EBITDA for Q1 increased 66% to 57.2 crore. Of this amount, Rs.26 crore is again due to a change in the accounting standard 11. Other income also includes a sum of Rs.7 crore from the sale of surplus power. The sale of power is a new revenue stream for us and we expect to add additional revenue from this venture in subsequent quarters also. For the quarter our interest and depreciation costs increased to Rs 18.7 crore and Rs 34.4 crore, up 166% and 39% respectively. The increase is due to general increase in the rate of interest, higher levels of utilization of working capital facilities and the capitalization of the expansion project. All project related costs have now been charged to the revenue account during the quarter under review.

This corresponding quarter our PAT was marginally higher at 2.27 crore compared to Rs.2.2 crore last year. This marginal increase in PAT is despite the fact that the effective rate of taxation has increased during the financial year. Moreover, in Q1 last year we had a one time special gain of Rs.52 lakh and also enjoyed additional dividend income from our investment that has now been liquidated. Our cash profit this quarter was much better at Rs.38 crore. On the raw material front, although the price of crude oil has increased over the quarter, the prices of PTA and MEG have remained by and large stable on the back of higher raw material availability. Larger PTA and MEG capacities have come on stream in both India and overseas in the last year and we expect input prices to remain around the present levels during the next quarter.

Overall with increasing demand of PSF and POY and improved raw material availability of PTA and MEG our confidence in the polyester sector prospects and the outlook for the business over the long term continues to be strong. The results of our capacity doubling project are already visible and we have increased our market share to approximately 16%. This brings me to the end of my discussions and I would now be happy to discuss any specific details or questions that you have. Thank You.

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*Question and Answer Session*

**Moderator:**

Thank you Sir. Ladies and Gentlemen we will now begin the question and answer session. If you have a question, please press \* and 1 on your telephone keypad and wait for your turn to ask the question. If your question has been

answered before your turn and you wish to withdraw your request you may do so by pressing # key.

Our first question comes from Mr. Amol Rao of Pioneer Intermediaries.

**Amol Rao:**

Good afternoon gentlemen. I have a couple of queries. Firstly, while our production of PSF and POY has seen a significant jump, why is it that our production of FDY and yarn has dropped because these are higher yielding products, so why has the production dropped year on year. Secondly what is the gross block of the company because there is a significant jump in depreciation, and thirdly what is the rate of debt that we are paying on our term debts and our working capital loan?

**Abhinandan Chatterjee:**

The gross block of the company as of 30<sup>th</sup> June is 2,837 crore. See we have approximately added Rs. 800 crore to the capitalization process that has straight away entered my gross block.

**Amol Rao:**

Alright sir and what is the reason for the FDY and yarn sales drop?

**R. S. Singhvi:**

You see our basic increase in the capacity was in PSF and POY.

**Amol Rao:**

True sir. The thing is, if I am not mistaken FDY and Yarn is just a little further spinning of POY. So why is it that, since these products are higher value added products, why don't we push for the sales of those because at least in FDY okay, I can understand but in yarn the products the sales have dropped significantly almost from the 20 odd percent.

**R. S. Singhvi:**

You are talking of DTY basically. Our sales in fact has been flat, rather not reduced significantly, it has been more or less flat, but I think things are looking up and in the time to come, way market is operating, not only the volumes will go up, but also the margins will improve in the times to come.

**Amol Rao:**

Sir is it also because that a lot of, lets say texturizers have risen in numbers and small, small texturizers have bought machinery from Taiwan and Korea and set up 15,000 tons. So they are buying POI from us and are texturizing it themselves. Is that the case also that DTY off take has kind of slowed down?

- R. S. Singhvi:** I would say that the market is growing very fast. DTY also like the POY market is growing fast. Lots of people are going in and adding machines in their plants to meet the increase in demand. We don't have any problem if the new machines are put up by the second line spinners. We are comfortable with that because the market is showing improvement in capacity.
- Amol Rao:** Alright sir. My last query was about the interest rate that we are paying on our term debt and on our working capital loans.
- R. S. Singhvi:** The total debt as of 30<sup>th</sup> June, secured loans were Rs. 793 crore and also had unsecured loans of Rs. 71 crore.
- Amol Rao:** Alright sir. And what is the interest rate on these sir?
- R. S. Singhvi:** Effective interest rate on our debt is approximately 8%.
- Moderator:** Thank you sir. Our next question comes from Mr. Jignesh Shah of Man Financial.
- Jignesh Shah:** Good afternoon Sir. If you take about our peer competitor JBF Industries, almost capacity-wise and scale-wise we are almost similar. And they are operating close to 12% to 13% operating margin, while we are operating at around say 5% to 6% operating margin. So what will be the basic difference we have between these two?
- R. S. Singhvi:** Yeah we cannot exactly say, certainly product mix is different than JBF, we are manufacturing POYs, we are manufacturing FDYs, we have got DTYs. Product mix in entirety is not comparable, yet some products are comparable.
- Jignesh Shah:** Yeah, but in the margins there is vast difference
- R. S. Singhvi:** Because of change in market dynamics, at certain points of time, some products do give better margins, at a particular point of time some products give different margin. So we have to come back to what is our major difference. Actually in Silvassa, where JBF plant is located near Silvassa, only the power cost has been a major area of concern; there the power is very cheap, 2 rupees 80 paise or something like that.
- Jignesh Shah:** What is our power cost?

- R. S. Singhvi:** Our power cost is around 4 rupees. That makes all the difference in the margin. 2 rupees 80 paisa and our cost is little higher, so that makes a little cause of increase in our case.
- Jignesh Shah:** Okay. And second thing is a little bit of over supply in terms of POY segment. To what extent will this scenario therefore...
- R. S. Singhvi:** Actually the POY market is changing and there's an improvement in the utilization level. Since the capacity utilization is at around 88% to 90%, so more or less increase in capacity has been absorbed in the market, so more or less things are looking up in POY segment now.
- Jignesh Shah:** After six month or one year down the line at least power supply will be balanced I think.
- R. S. Singhvi:** No as of now there is no over supply. The full capacity has already been absorbed. Whatever exports are taking place; actually they will reduce and get absorbed in the domestic market.
- Jignesh Shah:** Yeah, because realizing export is little bit lower compared to domestic market.
- R. S. Singhvi:** Little bit lower but it is showing signs of improvement.
- Jignesh Shah:** Okay I understand it. Thanks.
- Moderator:** Thank you sir. Our next question comes from Mr. Ricky Kriplani individual investor.
- Ricky Kriplani:** Well my questions are similar to what the last gentleman asked but there is a little difference which I would like some clarification on. Reliance had increased the capacity by about half a million tons, has this also been absorbed in the market place, as per you.
- R. S. Singhvi:** Yes. The capacities I am talking of is the industry capacity, I am not talking of any specific capacity of any company. The industry capacity has already been absorbed in the market.
- Ricky Kriplani:** But then that would effectively mean that this is a pretty fast ramp up because across the board the industry had ramped up by 50%-60%. The prevailing capacity last year, would have been, say, 1.8 million tons to 2 million tons and now it's almost 3 million tons, and you are telling me that is all been absorbed, more or less?

- R. S. Singhvi:** Partly because exports have gone up and because of the change in the alternate fiber rate like cotton prices have significantly gone up from Rs. 17,000 per candy to Rs. 20,000 candy now and plus the change in the DT structure in the recent budget they have all been called for increase in the absorption of the capacities of the synthetic fibers and filament yarn and so these combined together - exports, duty reduction, increase in the prices of the alternate fibers, they have changed the complex of the whole industry and because of which the higher ramp up of the capacity have also been absorbed in the domestic market.
- Ricky Kriplani:** Okay but then your pricing power is still under pressure for the simple reason that if one looks at this current quarter, your PBDT is effectively negative once you remove the other income. So when do you see some pricing power coming back into the system.
- R. S. Singhvi:** Things are looking up and every month it is improving. And in July-September quarter we project that a good number will be shown because the pricing has improved in the month of July itself and it will continue to improve in the months to come.
- Ricky Kriplani:** Okay and what kind of forecast do you all have on projection of industry capacity for March '08 and March '09 and the demand for the same, just a ballpark so that we have an idea, with the prospective view as to what you are envisaging?
- R. S. Singhvi:** See this is purely speculative in nature to project what will be '08 and '09.
- Ricky Kriplani:** No, I am talking about the industry. Just as a rough idea. I mean from your management discussions stand point.
- R. S. Singhvi:** The current annual PFY capacity is 2.046 mn Tones which is projected to increase to 2.121 mn Tonne in 2008 & 2009. The current annual PSF capacity is 1.286 mn tonne which is projected to increase to 1.288 mn Tonne in 2008 & 1.388 mn Tonne in 2009. After removing the ideal capacity the industry is currently operating at around 90% which we believe that by the next year the industry would be operating close to 100% level.
- Ricky Kriplani:** Have you not been impacted through the strong rupee in terms of the exports getting impaired?

- R. S. Singhvi:** This export is one of the causes of worry, but you see actually with the passage of time our cost structure will also get adjusted with the appreciation of the rupee, so I think things are taking shape with the passage of time and we feel that we are all adjusting with this appreciating rupee and recently the government has announced the increase in the DEPB rate, so that will also give some comfort to all of us, the DEPB increased rate as well as the subsidy in the interest, this together will give us some comfort.
- Abhinandan Chatterjee:** And your question of what will it be in `09 and `10 is that the polyester capacity will be between 4 million and 4.5 million tons.
- Ricky Kriplani:** Okay. And you all expect a demand push to the same equipment level or do you see an over supply coming in at that point.
- Abhinandan Chatterjee:** There will be no over supply. The demand is growing and the country would need between 4 million ton to 4.5 million ton of the yarn and fibers in India.
- R. S. Singhvi:** Now already we are balanced; so whatever capacity comes in, that everybody will keep in mind for future projections and then we will add the capacity.
- Ricky Kriplani:** Okay so you are saying that the general trend of the players is to be more prudent in their capacity expansion these days as opposed to the rampant expansion in the past?
- R. S. Singhvi:** Now the things are looking up, so I mean things are much clearer and much better than in the past because of the cotton fiber problem, because of the excise duty factor, negatively towards synthetic fibers and filament yarn, things are more clear now. Now the duty has come to very low level of 8% and 7 ½% for the whole, so we are very comfortable with this structure. So now the things are very clear and we can take a call for further expansion.
- Ricky Kriplani:** Okay and what about the China factor in as much as the threat of dumping from there comes in. I think they have come up with some new regulations, where they have reduced their rebates for exports.
- R. S. Singhvi:** Yeah. Their rebates for the exports have also been reduced and we have got anti-dumping duties also. So China factor has no threat to us as of now.

- Ricky Kriplani:** So when you say the anti-dumping duty is in place, I believe it is reviewed on a yearly basis, right?
- R. S. Singhvi:** Five yearly basis.
- Ricky Kriplani:** Is it five yearly? Okay so that means it has been in play only since last year, correct?
- R. S. Singhvi:** It has been reviewed only I think last week. In the month of June end the government has come out with a new circular keeping anti dumping duty for another five years.
- Ricky Kriplani:** For 5 years. So that means primarily the main threat would have been only from China I would figure, no other threat.
- R. S. Singhvi:** Even before that we were not having any threat from China as such, industry is matured and cost structure is also very favorable, so that way we are not threatened by China.
- Ricky Kriplani:** Okay so this anti-dumping is not going to be reviewed for 5 years or is it yearly or is 5 yearly.
- R. S. Singhvi:** As a law and it can be reviewed anytime, when the period expires.
- Ricky Kriplani:** Yeah, no but that's five years from now.
- R. S. Singhvi:** Yeah they can further take further corrective steps if there is any needed.
- Ricky Kriplani:** So just one last thing coming back to the margin aspect, when do you see some clarity in terms of, if you are running at effectively 90% of capacity shouldn't the pricing power come in sooner rather than later?
- R. S. Singhvi:** See the capacity utilization has been increasing recently. So now we have increased the balance of our capacity. With this phenomenon the margin will also show incremental trend, again with increase in the tax to come. Every month the margins will show some increase.
- Ricky Kriplani:** Okay, and on a global basis your supply demand balance, is it an imbalance in favor of over supply or is it typically balanced?
- R. S. Singhvi:** Globally also the situation is changing very fast because capacities are closing in Korea, Taiwan and capacities are increasing in India and China, so all these factors are playing a greater role in determining the global scenario.

So, globally also now demand for the polyester fiber is increasing because of the rising cotton prices.

**Ricky Kriplani:**

Lastly, have you made any petition to the government to do some adjustment on this 8% excise because of the strong rupee, so that it can aid in the exports also?

**R. S. Singhvi:**

Government has already given the increase in the DEPB and some reduction in the interest rates, government has done its role partly and budget times will also take care of other things also. The next budget is due in February so we will see how to present to the government to make a level playing field.

**Ricky Kriplani:**

Yeah, because the excise would be impairing above the industries exports, even the local consumption to a certain extent, even the 8%, even though it is far reduced now compared to what it was earlier.

**R. S. Singhvi:**

You are right but government is doing it big ,every time in the last three budgets the government has given something to the synthetic industry, we feel the next budget also the government will remove the disparities whatever wherever they are adjusting, keeping in mind the appreciating rupee also.

**Ricky Kriplani:**

Okay thank you.

**Moderator:**

Thank you Sir. Our next question comes from Mr. Pankaj Chopra of HDFC.

**Pankaj Chopra:**

Good evening sir. I have two questions. One was if I could get the break up of the Q1 sales in terms of how much is the domestic out of this and second one was, is the depreciation

**Abhinandan Chatterjee:**

Are you talking about volume or values?

**Pankaj Chopra:**

Volumes.

**Abhinandan Chatterjee:**

Domestic sales volume is 105,456 tons and exports are 17,279 tons.

**Pankaj Chopra:**

Ok so about 15% of the turnover comes really from exports, in volume terms?

**Abhinandan Chatterjee:**

Yes.

**Pankaj Chopra:**

Fine sir. Sir second question was on interest and depreciation. You had a note here saying that all costs are

now being charged to revenue account, just wanted to ensure the fourth quarter this year, does it include the entire charge of intended depreciation for the new capacity?

**Abhinandan Chatterjee:** Yes.

**Pankaj Chopra:** Or is there some increment that we could expect in the next quarter?

**Abhinandan Chatterjee:** Full charge is there.

**Pankaj Chopra:** Full charge for all the equipment shown in the first quarter?

**Abhinandan Chatterjee:** Yes please

**Pankaj Chopra:** Thank you so much.

**Moderator:** Thank you sir. Our next question comes from Mr. Rajesh Seth of Tushar Investments.

**Rajesh Seth:** My question is, number one, can you give us the break up of the other income and second thing is can you give us the present value cost of the expansion of the plant you got in the last quarter? The replacement value of the expansion of the plant.

**Abhinandan Chatterjee:** Ok other income you can take down. Other income is interest received 1.65 crore, sale of scrap 1.52 crore, sale of power 7.25 crore, foreign exchange gains 32.84 crore, rent received 1 crore and others 4.85 crore.

**Rajesh Seth:** Thank you. And the replacement value of the plant expanded by you please.

**Abhinandan Chatterjee:** Replacement value of the plant. Replacement value of the plant means the plant that we have just installed?

**Rajesh Seth:** Yeah the plant you just expanded now.

**Abhinandan Chatterjee:** We have spent about Rs. 800 crore on that plant.

**Rajesh Seth:** It is the money spent by you, but if it is expanded by new company now, then what would be the replacement value?

**Abhinandan Chatterjee:** The last time while we set up the capacity it cost us Rs. 1,800 crore, now we have doubled the capacity identical capacity at Rs. 800 crore. This is technologically much more efficient.

- Rajesh Seth:** Okay but that doesn't include the cost of the land and the building, am I right? Does the Rs. 800 crore include the land and the value also?
- Abhinandan Chatterjee:** Land is common land.
- Rajesh Seth:** Okay so sir, it is a common land, the building part you know, does the Rs. 800 crore include the cost of the building also?
- Abhinandan Chatterjee:** Yes, it includes the cost of the building; main is the plant and machinery. Building is small value.
- Rajesh Seth:** Building is small value. Okay, thank you very much sir.
- Moderator:** Thank you sir. Ladies and Gentlemen we request you to kindly use your handsets while asking your questions and also we request participants to restrict to two questions to facilitate all others for asking questions.
- Our next question comes from Ms. Ashwini Desai of Birla Sun Life.
- Ashwini Desai:** Good evening sir. Sir how much is our domestic sales in value terms in this quarter?
- Abhinandan Chatterjee:** Our domestic sales is Rs. 691 crore.
- Ashwini Desai:** Okay, you are telling the gross sales?
- Abhinandan Chatterjee:** Yes.
- Ashwini Desai:** And what is the realization, domestic realization vis-à-vis export for your each of these segments - PSF, POY?
- Abhinandan Chatterjee:** Average realization per ton I am giving you, PSF is Rs. 59,613 per ton, POY is Rs. 66,115 and FDY is Rs. 86,562. DTY is Rs. 78,135, Chips is Rs. 57,425.
- Ashwini Desai:** Yeah sure, sir and have the prices improved over the last year or so?
- Abhinandan Chatterjee:** See cotton prices have been going up, polyester prices have come down, so that is one of the factors which is improving the demand for polyester. So I would not say that the prices are going up.

- R. S. Singhvi:** As compared to last year you know it is Rs. 2 to 3 lower, which I think in the next quarter July to September we will take it out.
- Ashwini Desai:** Okay and is it because of this pricing pressure that your EBITDA margins are down excluding other income?
- R. S. Singhvi:** Yes, one of the reasons is that because new capacities have come up, and all capacities are now in the market so naturally some pressure is there and gradually this pattern pressure is reducing in the market, since the market is gradually in the process of absorbing the increased capacity, so gradually this pricing will also improve, it will start showing signs from the month of July.
- Ashwini Desai:** Okay, sir last question, you said the effective tax rate has increased. Why is it sir?
- Abhinandan Chatterjee:** Because the secondary education tax was introduced in this budget so the effective tax rate this year is 33.99%, last year it was 33.66%.
- Ashwini Desai:** Okay, fine sir, thank you.
- Moderator:** Thank you madam. Our next question from Mr. Jignesh Shah of Man Financial.
- Jignesh Shah:** Hello, sir. I want to know for our incremental capacity, have you done any tie up for our raw material procurement?
- Abhinandan Chatterjee:** Yes absolutely 100%.
- Jignesh Shah:** Sir, which player is this?
- R. S. Singhvi:** Okay you see, we are buying from Mitsubishi Chemicals, Haldia and Indian Oil Corporation and Reliance.
- Jignesh Shah:** Okay and how much Reliance is contributing? Probably percentage-wise you can say.
- Abhinandan Chatterjee:** Reliance so far is not high because we have just started last month, it is going to be about 15% of our total.
- Jignesh Shah:** Okay, because what the market understanding is, Reliance being the largest player it may find that we are the second largest player it may find some threat to Reliance, so is there any problem with raw material procurement from Reliance or so?

- Abhinandan Chatterjee:** There is no problem. We get a competitive rate from them.
- Jignesh Shah:** Okay, thank you very much.
- Moderator:** Thank you sir. Next question comes from Mr. Amit Mishra of ICICI Securities.
- Amit Mishra:** Hello sir, my first question is, do you see any future upside in the newly started business of power selling?
- Abhinandan Chatterjee:** We shall continue to sell surplus power; we already have an agreement with Tata Power. We are also exploring possible other parties who can buy surplus power from us so it will be a continuing source of revenue for us.
- Amit Mishra:** And my second question, our polyester margins have declined on the back of paraxylene prices and we have also seen a lot of capacity expansion in MEG and PTA and also there are increases in cotton prices, but I don't see...as in the margins do not reflect this. There is only marginal improvement in the margin. So when will the pricing power come to you?
- Abhinandan Chatterjee:** Yeah you see the cotton prices have shown the incremental trends only recently in last about two months time, but the last about one month the cotton prices have gone extremely high and that is one of the reason and in the past the paraxylene prices have shown incremental trend so it took a little time in passing the whole increase in the market, so now the time has come wherein we have been able to pass much of the increase in paraxylene and since the cotton high prices are supporting us so our finished goods prices are going up and the margins are increasing.
- Amit Mishra:** Okay so sir, how soon can we expect to see a significant change in your margins?
- Abhinandan Chatterjee:** You will see a good change in July-September quarter.
- Amit Mishra:** July-September quarter this year, right, thank you sir.
- Moderator:** Thank you sir. Our next question comes from Mr. Mallikarjun Kudale of Anand Rathi.
- Mallikarjun Kudale:** Good evening. Which are the major competing countries in the international market?
- R. S. Singhvi:** Our main competitor in international markets are, Korea, Taiwan, Thailand, Malaysia, partly to some extent. Yeah,

these are the countries which basically exports fiber and filament yarn, but since the cost of production in these countries is going up gradually, so these countries now no more better supplier than us. We are able to complete with them.

**Mallikarjun Kudale:** I see, and my second question is - who are the main importing countries for your product?

**R. S. Singhvi:** You see our larger share goes in Europe, Latin America, Middle East, like Syria, Egypt and all that, also in Nepal, Bangladesh and...

**Mallikarjun Kudale:** And nothing to US?

**R. S. Singhvi:** US it does, I mean it is going, but not that big quantity, because US itself produces fiber.

**Mallikarjun Kudale:** And my third question is - what is the price difference between the competing countries as compared to your prices?

**R. S. Singhvi:** In international market when we offer prices and we have to match the best price so volumes cannot be sold. We are matching with countries like Korea, Taiwan, Indonesia, Thailand, at their budget that is why we are selling in the market.

**Mallikarjun Kudale:** What is your latest price for the PSF double fiber for exports?

**R. S. Singhvi:** PSF export price is \$1.39 / Kg FOB and it is gradually going up.

**Mallikarjun Kudale:** And for filament yarns, polyester filament yarns?

**R. S. Singhvi:** POY export price is \$1.45 / Kg FOB

**Mallikarjun Kudale:** And anything you are selling in dyed yarns?

**R. S. Singhvi:** No, we are into basic yarns.

**Mallikarjun Kudale:** Basic yarns okay, that's it from me. Thanks a lot.

**Moderator:** Thank you sir. Our next question comes from Mr. Ankit Bapel of Dolat capital.

**Ankit Bapel:** Good evening sir, I am Ankit Bapel from Dolat Capital. Sir you have indicated that moving forward your revenues from selling of surplus power would increase. Sir could

you just give us an idea that at what rate are you selling the power means per unit, if you could?

**Abhinandan Chatterjee:** First quarter we sold power at effective rate of Rs. 6.13 per unit.

**Ankit Bapel:** And moving forward?

**Abhinandan Chatterjee:** That is a matter of negotiation and now it is very difficult to speculate on this.

**R. S. Singhvi:** You see, our power selling is based on certain formula. And this price has been discussed at 6 rupees and at that time the FO cost was lesser to about 14,000, 15,000 rupees I do not know. With the increase in the FO prices the power prices will go up and it depends upon the furnace oil prices.

**Ankit Bapel:** Okay but you have already indicated that you have already signed an agreement.

**R. S. Singhvi:** Agreement is based on this formula.

**Ankit Bapel:** Okay sir formula, the fixed price has not yet been decided. Okay one basic question I want to ask is for the whole industry like, how long can the industry survive on Government sops if suppose I take out the this TUF scheme benefit, then DEPB and all those are given especially to the textile industry I feel majority of the companies would run into losses. So when could we expect that time when textile industry could generate revenues and could earn profits on their own, on an independent basis.

**Abhinandan Chatterjee:** You see if you need to increase your market in the emerging global market, if you want to be competitive then the government has to provide level playing field, if we don't have level playing field than we cannot grow,

**Ankit Bapel:** I don't get you, if you don't have?

**Abhinandan Chatterjee:** Level playing field.

**R. S. Singhvi:** Like interest rate and power cost, we are much, much higher than the other countries.

**Abhinandan Chatterjee:** If suppose you take the example of China, and their currency is also restricted, there is no significant increase in their currency vis-à-vis dollar whereas in India the rupee

has appreciated. Similarly their power cost is competitive than in India and other because of infrastructure benefits. Government has to either compensate in terms of sops or they have to provide level playing field, so this way I mean government is helping our exporter and domestic suppliers to remain competitive in the international arena also.

**Ankit Bapel:**

Sir, what do you feel how long would it take?

**Abhinandan Chatterjee:**

Government has already reviewed excise duties in the past budget. Government has realized this fact that unless and until they reduce the duties, they give certain comfort to exporters and they provide certain benefits to the certain companies who are not finding it possible to compete. So therefore government comes up with certain sops and gradually the sops are reducing also and the companies are coming up and competing and that is why I mean, in the tentative time I think the economy will, it won't move without effects benefits coming from the government.

**Ankit Bapel:**

Because the investor is always worried that since these policies are subject to be withdrawn any time. So if they are withdrawn by the government what will happen to the companies?

**Abhinandan Chatterjee:**

No, if you see the DEPB, see at one point of time 2 years back it was at 16%, 17%. Then DEPB rates have come down to 6% to 7%. So the government is already I mean reducing these sops and the industry is absorbing all these reductions.

**Ankit Bapel:**

Okay means I feel there is no reduction in sops, because it is that simultaneously both have reduced. So effectively you are at the same place?

**Abhinandan Chatterjee:**

The structure is like that. If you disturb that structure then we will remain uncompetitive in the market.

**Ankit Bapel:**

See the basic question comes that when can we compete in terms of quality and designing and ...

**Abhinandan Chatterjee:**

I would say that India is one of the most reliable countries. We score over China as far as reliability and quality is concerned, and India is now encashing these benefits of quality and reliability as a vendor. So this point has now over the last couple of years, this image has changed, and that is helping India a great deal in the global scenario. China is a supplier of the quantities wherein India is a supplier of fashion garments and value-added products.

So India is already recognized as good on both these points which you are raising.

**Ankit Bapel:**

But, in spite of all these positives, India is losing market share and China has rising market share. China is making money and India is not.

**Abhinandan Chatterjee:**

No, India is not losing the market share, okay whatever the new opportunities are coming, India is taking a lower share and China is having a larger share.

**R. S. Singhvi:**

And Chinese government is also helping them in a big way. And we have major infrastructure issues, we don't have proper ports, there is congestion on the ports, our export trucks have to keep on waiting at the port, we have to pay the demurrage to the trucks. In the ports, the goods get damaged, I mean in China these sorts of problems are not there, so we need to face the realities.

**Ankit Bapel:**

Okay fine sir that is the basic reason, so you mean to say the Indian infrastructure and all those economy is the problem and company specific, there are no problems.

**R. S. Singhvi:**

Yes certainly.

**Ankit Bapel:**

And the last question, as it could be a repeating question as you have already indicated moving forward, your margins would improve. Sir, could we ever see a double-digit EBITDA margins.

**Abhinandan Chatterjee:**

Absolutely.

**Ankit Bapel:**

And when could we expect it?

**Abhinandan Chatterjee:**

Yeah, yeah, the EBITDA margin is not a far away dream, it may come true in one or two quarters and that is our goal, and that is our objective and we are working towards it.

**Ankit Bapel:**

In a couple of quarters we can see a double digit aggregates?

**Abhinandan Chatterjee:**

Yes, yes certainly.

**Ankit Bapel:**

Okay sir, all the best sir, and thank you.

**Moderator:**

Thank you sir. Our next question comes from Mr. Gautam Roy of Edelweiss.

**Gautam Roy:**

Good evening sir just wanted to check a couple of things; I joined a bit late so pardon me if I am repeating. Firstly

what is the incremental duty drawback that synthetic yarn is getting under current revision that has happened?

**Abhinandan Chatterjee:** Yes I can tell you on our product it is 2%, and on our synthetic yarn fiber value added, that is taken at 60%.

**Gautam Roy:** Okay and any changes that has happened in this?

**Abhinandan Chatterjee:** Yeah, yeah it is, drawback rates have been increased only last week from 2% to 3%.

**Gautam Roy:** From 2% to 3%. And any particular dealer price, the increases have been lower for yarn compared to garments and fabrics?

**R. S. Singhvi:** You see this duty drawback is on pieces. Wherever pieces can be counted then duty drawback is given on the basis of certain value and number of pieces right. DEPB is applicable on products like our kind, PSF, yarn, fiber, filament and all that. In our case, the DEPB rates have increased recently last week itself from present 6% and 7% to 8% and 9%.

**Gautam Roy:** Okay.

**Abhinandan Chatterjee:** These are effective from 1<sup>st</sup> of April.

**R. S. Singhvi:** These are retrospectively effective 1<sup>st</sup> of April '07.

**Gautam Roy:** And what is your long-term outlook on yarn prices both cotton as well as synthetic, because cotton prices clearly have been steady and I believe because of the rupee appreciation, exports might become increasingly less feasible for cotton yarns finished. So would you think that there is a possibility of a strong downtrend in yarn prices going forward?

**Abhinandan Chatterjee:** No, I think somewhere we are wrong. First of all, I would correct your impression that cotton market is low, cotton market is galloping. Raw cotton prices are increasing every day. In last year about in 15 days' time, the cotton prices have gone up by above 5% to 6%. If you take the last one month time, then the cotton market prices have gone up by 10%.

**Gautam Roy:** But the buying phase is over no, largely for this financial year?

**Abhinandan Chatterjee:** Yeah, and you see internationally also the cotton prices are going up significantly high, so cotton prices are

increasing, therefore the yarn prices are bound to grow and in fact the yarn prices have started rising, yarn prices are showing higher prices and similarly synthetic yarns are also rising, so overall yarn prices are rising despite having that dollar problem, dollar problem is partly taken care by the DEPB so therefore the companies are now exploring possibilities to export more and more yarn because of the sops given by the government. So internationally the prices of all the products are rising.

**Gautam Roy:**

But the smaller yarn spinners, I have been speaking to some of them, cotton yarn spinners. They say that they are in deep trouble, yarn prices are coming down.

**Abhinandan Chatterjee:**

Yeah, they are in deep trouble because cotton prices are rising and the Rupee is appreciating. Yes these two points have been reducing their competitiveness, but with this change of the government DEPB, they will get some relief and the interest subsidy also that will give them some relief. So with this twin benefits they will be able to overcome some of the disadvantages and then they are gradually coming up out of these problems and they will start exploring the possibility of exporting at competitive prices.

**Gautam Roy:**

Okay but if the Rupee keeps on appreciating further, the problem can be curbed right?

**Abhinandan Chatterjee:**

Yeah, gradually we have to adjust that kind of regime, but in other countries like Taiwan and other countries, their currencies are also similarly facing the same kind of problem, the Thailand currency has also appreciated from 39 to 33, so this phenomena is globally present, so we are not the only country which is facing this problem.

**Gautam Roy:**

Okay thanks.

**Moderator:**

Our next question comes from Ms. Rajalakshmi of Capital Market.

**Rajalakshmi:**

Good evening sir. Sir can you please repeat your other income breakup.

**Abhinandan Chatterjee:**

Yeah, other income is interest received Rs. 1.65 crore, sale of scrap Rs. 1.52 crore, sale of power Rs. 7.25 crore, foreign exchange gain Rs. 32.84 crore, rent received Rs. 1 crore, others Rs. 4.85 crore.

**Rajalakshmi:**

Thank you sir. One more thing, you said you have a tie-up for raw material procurement and Reliance and Mitsubishi

Corporation are two players what about the third player sir?

**Abhinandan Chatterjee:** That is the Indian Oil Corporation.

**Rajalakshmi:** Sorry.

**Abhinandan Chatterjee:** Indian Oil Corporation.

**Rajalakshmi:** Okay, okay thank you sir.

**Moderator:** Thank you madam. Next question comes from Ms. Sangeeta Tripathi of Anand Rathi.

**Sangeeta Tripathi:** Sir my question is regarding this total debt, in your press release it is mentioned that the total debt stands at Rs. 865 crore, and you gave us the break up, can you repeat that in terms of short term loans and the term loans.

**Abhinandan Chatterjee:** The secured loans are Rs. 793.24 crore, and unsecured loans are Rs. 71.67 crore.

**Sangeeta Tripathi:** Sir, can you repeat in terms of long term and the working capital loans?

**Abhinandan Chatterjee:** These are secured loans, long term, short term I don't have this breakup right away, we can work it out and send it to you.

**Sangeeta Tripathi:** Okay sir and this was pertaining to this recent scheme which has been announced by the government as far as the TCFC credit, pre shipment and post shipment credit is concerned. I would just like to know for us as a company what is the benefit of this, I mean how much of our loan comes from this export pre shipment or post shipment. Can we avail of this benefit or no?

**R. S. Singhvi:** This benefit is from the bank PLR rates.

**Sangeeta Tripathi:** Right sir, so...

**R. S. Singhvi:** As a company we are getting without these benefits the same rate as what people will get now. So there is no extra benefit to us in exports.

**Sangeeta Tripathi:** That's what I was saying; I mean to you there is no extra benefit as compared to a person like a garmenter who is taking loans for exports, right?

**R. S. Singhvi:** Yeah, they may be getting the advantage 2%.

- Sangeeta Tripathi:** But we as a company will not get the advantage right?
- R. S. Singhvi:** We will get as a company, what I am saying that big companies like us who are already getting you know at very low interest, so it won't benefit us.
- Sangeeta Tripathi:** Okay you said that you are getting at already low, but then I guess your effective interest rate you said is 8% right?
- Abhinandan Chatterjee:** Yes, the effective overall rate is 8%.
- Sangeeta Tripathi:** Sir my basic question is with this interest rate which has been announced by the government what benefit, additional benefit we will get as a company?
- Abhinandan Chatterjee:** Additional benefit is very marginal because the polyester sales, PLR minus is say 0.45%. We are already getting PLR minus 4%, so for us the additional incremental benefit is 0.05% which is very, very marginal.
- Sangeeta Tripathi:** Okay sir. Thanks on that. One more thing is regarding the core operating margin as you said and you indicated that from July onwards and the results will be out we will be seeing good EBITDA margins and probably even double digits and that is your goal, right? But then see when I look at your numbers of last 3 to 4 quarters, a substantial amount comes from other income while the core operating margin is going on reducing quarter on quarter, so where is the actual pricing power coming, its the other income which is giving you an EBITDA margin of 8%, 8-1/2%.
- Abhinandan Chatterjee:** Actually is that is the very generic statement to make, each quarter there are individual reasons, in some quarter our raw material prices went up, it could not be passed on but that is no longer the case, our raw material prices are very much under control. Since lot of capacities came to the market at the same time, we have placed the entire capacity at the market place we were very aggressive on the top line and increasing our market share for which we have to offer some discounts and things like that, so this is the total difference. So it is very difficult to make a generic statement that quarter after quarter margins are down. And once we are either with the customers on a long term basis, now our margins are certainly going to improve. And the raw material outlook is also quite benign for the coming few quarters.

- Sangeeta Tripathi:** Okay sir, and on the power costs you said that you have sold the power at 6 rupees 13 paise a unit right. At what price are we making that power?
- Abhinandan Chatterjee:** Our total overall cost of power including of all costs, including interest and depreciation is approximately Rs. 5.5 per the unit.
- Sangeeta Tripathi:** Rs. 5.5 per unit. Okay. So you have been selling at one rupee profit less than a rupee?
- Abhinandan Chatterjee:** Yes.
- Sangeeta Tripathi:** Okay sir, can we say that the margins have actually bottomed out now, this is the end I mean beyond this we will be seen an upward trend in the margin?
- Abhinandan Chatterjee:** Absolutely you are right.
- Sangeeta Tripathi:** Okay sir, thanks a lot.
- Moderator:** Thank you Madam. There are no further questions. Now I hand over the floor to Mr. Chatterjee for closing comments.
- Abhinandan Chatterjee:** Thank you all for joining the teleconferencing call of Indo Rama Synthetics. We appreciate the interest shown by you in our company and we look forward to the meeting you personally the next quarter. Thank you.

- ENDS -

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