



“Indo Rama Synthetics (India) Limited  
Conference Call”

**February 01, 2008**



**Moderator:** Ladies and gentlemen, good evening. I am Rochelle, the moderator for this conference call. Welcome to the quarter results with the management of Indo Rama Synthetics. Please note that for the duration of this presentation all participants' 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. Please also note that this conference is being recorded. I would now like to hand the conference over to Mr. Jigar Dave of Citigate Dewe Rogerson. Please go ahead, Mr. Dave.

**Mr. Jigar Dave:** Good evening and thank you for joining us to discuss the Indo Rama Synthetics Limited Q3 results. On the call we have with us Mr. Vivek Kaul, CFO and Mr. G. P. Bhatia, President (Corporate). Before we begin, I would like to state that some of the statements made in today's discussion may be forward-looking in nature and may involve risks and uncertainties. Now I would like to invite Mr. Vivek Kaul to take this call forward.

**Mr. Vivek Kaul:** Thank you Jigar and good afternoon to everybody. Welcome to the Indo Rama Synthetic Q3 conference call. I think you all have received the investor communications with the results; I will just recap it for you.

Net sales have increased during this quarter marginally to Rs. 545 crore, EBITDA is up Rs. 66 crore which was 98% higher than the previous corresponding quarter and Profit After Tax has more than doubled to Rs. 7.2 crore compared to the corresponding previous quarter. Cash profits during this quarter is stood at 47.8 crores. Our total sales during this quarter were 47,747 metric tonnes as compared to 82,547. Sales level of PSF and POY was 31,000 odd and 37,000 odd tonnes respectively. POY sales are up 28% year on year, our PSF sales were flat. For the 9 months PSF and POY sales were 1,27,898 metric tonnes and 1,15,500 metric tonnes showing a healthy growth of 34% and 93% respectively.

For this quarter, our interest and depreciation costs have increased to Rs. 25 crore and Rs. 37 crore, which is up 92% and 32% respectively. The increase is likely due to the capitalisation of the expansion project completed recently and higher utilisation rates and an increase in the rate of interest.

Let me also take this opportunity to cover some key developments during this period. Thereafter, we will be happy to have an interactive forum where we can discuss questions that you may have in more detail. During the quarter, the High Court of Bombay sanctioned the scheme of amalgamation of Indo Rama Petrochemicals Limited, (IRPL) with us. Indo Rama Petrochemicals Ltd is engaged in the business of power. Appointed date of the scheme is 1<sup>st</sup> February of 2007. Indo Rama Petrochemicals runs a 30 Mega Watts coal fired power plant and we have benefited from captive power availability and sale of surplus power to the Maharashtra Grid. The merger opens up a new revenue stream for us and we stand committed to grow this segment of the business in the future.

Further, during the quarter, a fire broke out at our plant which caused damage to fixed assets worth Rs. 3.5 crore. The loss is insured at replacement value and we do not foresee any loss on this account. On the raw material front, the demand and supply scenario of PTA has witnessed a change from FY `07 owing to increased availability. On the back of increased capacities in PTA, prices have dipped in the past few months. PTA saw a reduction of over 15% during this quarter, year-on-year. PTA prices are expected to remain stable to lower in the future as supply begins to overtake demand. As a result, India is expected to be a net exporter of PTA. On the other hand, MEG, which is the other raw material, owing to a temporary supply disruption, has recorded highs during this quarter, and the MEG prices have since reduced considerably. As the MEG availability improves, the financial performance should also improve.

Overall, with softening of MEG prices, increased availability of PTA our future outlook is positive. Further, as cotton prices continue to head northwards, the demand for polyester is likely to increase. This brings me to the end of my discussion and we would, now, be happy to discuss any specific details or questions that you may have.

Thank you very much.

**Moderator:**

Thank you very much, sir. Ladies and gentlemen, we will now begin the question and answer session. At this point, participants who wish to ask a question may press “\*” and “1” on their phones.

The first question is from the line of Mr. Sandeep Randery from Brics Securities. Please go ahead, sir.

**Mr. Sandeep Randery :** Good afternoon, Sir, I just wanted to know your production target for Q4 is and your sales target, also?

**Mr. Vivek Kaul:** Our target for Q4 is about 1,00,000 tonnes.

**Mr. Sandeep Randery:**Of production or sales?

**Mr. Vivek Kaul:** Sales.

**Mr. Sandeep Randery:**And sir, what about your pricing environment for polyester? Has there been a price reduction?

**Mr. Vivek Kaul:** There has been a price reduction from time to time because this is a peculiar phenomenon. Whenever raw material prices fall, the end customer always expects product price to adjust to that. So, the end product prices tend to fall along with raw material prices till the time they bottom up and only then, we can look at increasing our selling prices. It is a matter of adjustment which is now behind us. So, from here onwards, we don't see any further decrease in our selling prices.

**Mr. Sandeep Randery:**So sir, you don't expect a price reduction in the coming quarter?

**Mr. Vivek Kaul:** No.

**Mr. Sandeep Randery:**Ok sir, I will join back later, thanks.

**Mr. Vivek Kaul:** Ok.

**Moderator:** Thank you, Mr. Randery. The next question is from Mr. Pankaj Choksey of HDFC Mutual Funds. Please go ahead, sir.

**Mr. Pankaj Choksey:** Good afternoon, sir. Just wanted to understand, in perspective, the reasons for lower volumes in Q3 and the higher inventories. Also, how is the scene going forward in Q4?

**Mr. Vivek Kaul:** The reasons for lower sales is, primarily, the market was passing through a stage of adjustments due to expected reduction in the prices, because MEG had really spiked up during this quarter. You know, it had gone up to \$1,650 a tonne from a normal level of 950 or so and it was because of a certain event which happened in Saudi Arabia and there were a lot of uncertainties that any time the plant starts working, the price would come down. So, it was expected that prices will come down and, therefore, the finished product prices will also come down. This is one of the reasons which led to a slower off-take during this quarter. The other reason, we feel, is because of the adjustment process going on in the textile industry. A lot of their products could not be exported during this quarter because of the Dollar-Rupee exchange rate movements. So, a lot of materials which were meant for exports could not be exported and possibly found its way into the domestic market, thereby slowing down the off-take of the normal domestic production. But, we think firmly that all this is behind us and from here onwards, growth and demand should pick up and come back to normal levels.

**Mr. Pankaj Choksey:** So, what has your experience been in the month of January? Have you reduced some of these inventories?

**Mr. Vivek Kaul:** In January, we have reduced marginally. But February and March, especially March onwards; it is the best part of the year for polyester industries. So, the demand should be extremely robust, definitely from March onwards.

**Mr. Pankaj Choksey:** So, Q4 is going to be similar to Q3? The moment comes only in beginning of next year?

**Mr. Vivek Kaul:** I think, in volume terms, it should be better than Q3 but the real taker will come in from March.

**Mr. Pankaj Choksey:** Perfect, sir. Thank you.

**Moderator:** Thank you, Mr. Choksey. The next question is from the line of Mr. Bharat S. from Sundaram Mutual Funds. Please go ahead.

- Mr. Bharat S:** Sir, in terms of our interest cost and debt, you are quoting that you have a higher interest cost. So, will you share with us what is the debt in the books at this time and what is the effective interest rate?
- Mr. Vivek Kaul:** The total debt is about Rs. 1,091 crore as of end of the quarter and interest cost is, I don't have the exact numbers, but I would suspect it could be around 10% or less.
- Mr. Bharat S:** Secondly, in terms of the merger of IRPL, at what price we would be possibly selling our surplus to Maharashtra
- Mr. Vivek Kaul:** Upwards of 7 rupees a unit.
- Mr. Bharat S:** Ok. Fine, sir. Thank you.
- Moderator:** Thank you, sir. The next question is from the line of Mr. Ricky Kriplani. Please go ahead.
- Mr. Ricky Kriplani:** What about any additional capacities which may be coming up over the next 6 to 24 months in the domestic market?
- Mr. Vivek Kaul:** I will ask Mr. Bhatia to give you a brief.
- Mr. G. P. Bhatia:** Mainly the capacities are coming up in the polymerisation side, that is, chip production, where 3-4 new plants of 600 tonnes each per day, but only 1/3<sup>rd</sup>, or even lower than that of POY, capacity will come up. That is the actual capacity addition.
- Mr. Ricky Kriplani:** That means you are talking about 600-700, thousands tonnes of chips and this will be over the next 6 to 18 months?
- Mr. G. P. Bhatia:** Yes.
- Mr. Ricky Kriplani:** And how would this impact the pricing power of the industry?
- Mr. G. P. Bhatia:** No, actually the demand is growing. So, this new capacity has to come in. What we expect in the next 1-2 years is that the finished product will be short.

- Mr. Ricky Kriplani:** Ok, you believe that the chip capacity would supercede the POY output?
- Mr. G. P. Bhatia:** Yes, chip capacity will be higher but actually POY capacity will not be in line with market requirements. There could be tightness in POY and PSF production.
- Mr. Ricky Kriplani:** Is there any dumping taking place from China or from Korea or anywhere else? Malaysia?
- Mr. G. P. Bhatia:** Yeah, actually it is taking place only in one product, that is, Fully Drawn Yarn (FDY), not in any other major product.
- Mr. Ricky Kriplani:** And do you all expect any kind of dumping to come in the other products?
- Mr. G. P. Bhatia:** You know local prices are very competitive with the international market and we have no issue on the China.
- Mr. Ricky Kriplani:** Sorry, you have no issue on the ...?
- Mr. G. P. Bhatia:** Chinese, you know, dumping products into India.
- Mr. Ricky Kriplani:** Sir, what about the FDY, is there any likelihood of that dumping reducing?
- Mr. G. P. Bhatia:** Yeah, because the industry is seeking anti-dumping duties on imports of FDY from China, Korea etc. and once that takes place, this problem will also be over.
- Mr. Ricky Kriplani:** Ok so, has there been any incremental dumping or is it just the same amount of tonnage which was coming in over the last 3-6 months? Is it the same amount which is coming in now?
- Mr. G. P. Bhatia:** Actually, it would be about 20-25% on the product being, you know, dumped. But FDY, as you know, constitutes a very small percentage of Polyester Production.
- Mr. Ricky Kriplani:** Right. And with regards to your overview on your output for the next 1-2 years in the domestic market and in terms of production capacity and potential sales, what do you see the market being at?

**Mr. Vivek Kaul :** Apart from the chips expansion, there is a very small amount of POY being added in terms of capacity addition and you know very well that chip is not the ultimate product. You have to make POY for it to be useable. So, while the chips may be increasing, it doesn't really bother the industry because somebody has to put up a POY to consume the chips. And there are no announced plans, as such, of any major expansions in the POY field. So, we feel that given the growth rate of the Polyester consumption, which we think is upwards of 10%, there would be a situation, whereby, by the end of this year, the industry would be in a balanced position and, thereafter, huge capacities have to be planned sometime in the middle of this year to meet the demands in 2009.

**Mr. Ricky Kriplani:** So, currently the industry is running at what capacity?

**Mr. Vivek Kaul :** At about 80 odd percent.

**Mr. Ricky Kriplani:** And so, you are expecting it to get to 90 odd percent by the end of the year, is it?

**Mr. Vivek Kaul:** Yes.

**Mr. Ricky Kriplani:** Ok. And with regards to exports of polyester apparels from India, is there any momentum in that or is that for flagging?

**Mr. Vivek Kaul :** There is momentum you see that everybody has to adjust to changing business environments, both domestically and internationally. The prices of cotton have shot up so much which nobody has expected. People were hoping that cotton prices will come down at the beginning of the season or the middle of the season but that has not happened. So now, the price of yarn, both cotton and polyester yarn, have at least stopped dropping. They have now started looking at an increase and with the raw material prices coming down, as far as polyester goes, polyester is becoming more and more attractive vis-a-vis cotton.

**Mr. Ricky Kriplani:** Ok, but how would you match the difference, as 6 months ago, the parity between the two, I mean if polyester was for example 80% of the price of cotton say 6 months ago, today what would it be?

**Mr. Vivek Kaul :** I can tell you, given everything else being the same, we have headroom of Rs. 10 per kilogram.

**Mr. Ricky Kriplani:** Ok, so that means you have got scope. You are saying, in theory, about 15% potential in pricing?

**Mr. Vivek Kaul:** Yes. Provided there is capacity of the market to absorb that.

**Mr. Ricky Kriplani:** And sir, currently your local industry is about 3 million tonnes and it is likely to go to about 4.5 million tonnes over the next 2 years?

**Mr. Vivek Kaul:** That's right.

**Mr. Ricky Kriplani:** Ok. That's fine. Thanks.

**Moderator:** Thank you, Mr. Kriplani. The next question is from the line of Mr. Pankaj Choksey of HDFC Mutual Funds. Please go ahead, Mr. Choksey.

**Mr. Pankaj Choksey:** Just the follow-up question. What is the details of other income?

**Mr. Vivek Kaul:** Other income, there is some interest received of about Rs. 2 crore, sale of scrap Rs. 4.5 crore, Rs. 21 crore of miscellaneous. I will just come back to that and few other heads which are small in nature. In this Rs. 21 crore, there is Rs. 18 crore of provision, or rather, a receipt from the insurance companies. We had a fire, as I told you, in the month of October, towards the end of October, which had a small damage to our machinery but because of that, two of our CPs had been out of action until that machinery was replaced. While we are running the plant, the existing capacity is absorbing all overheads. So, this is a policy we have of loss of profits. So, the insurance company reimbursing us for the loss of profits, or you can call it, standing charges, Rs. 18 crore of that.

**Mr. Pankaj Choksey:** So, will it be right to say that Rs. 18 crore is the entire loss of profits for this quarter?

**Mr. Vivek Kaul:** Yes, on account of 2 CPs. We have 5 CPs; these are the 2 older CPs.

**Mr. Pankaj Choksey:** Perfect, sir. Thank you.

**Moderator:** Thank you, Mr. Choksey. The next question is from the line of Mr. Sandeep Randery from Brics Securities. Please go ahead.

**Mr. Sandeep Randery:** Yes sir, about your power plant. What fraction of power generator was sold out in the open market?

**Mr. Vivek Kaul:** I think it is around 10 Mega Watts. The total capacity we have between Digi-sets and this coal-based power plant is about 75 Mega Watts at its full potential. Nothing wrong at that level, i.e. 75, of which about 10 odd Mega Watts is getting sold.

**Mr. Sandeep Randery:** Yes, this is after we are going at a run rate of 600,000 tonnes per annum, right?

**Mr. Vivek Kaul:** Yes.

**Mr. Sandeep Randery:** Ok, sir. That was my question.

**Moderator:** Thank you, Mr. Randery. The next question is from the line of Mr. Ricky Kriplani.

**Mr. Ricky Kriplani:** Just to touch upon your capacity, which I think, is currently running at 65-67% of installed capacities. When does Indo Rama expect to get to 85-90%?

**Mr. G P Bhatia:** May '08 onwards.

**Mr. Ricky Kriplani:** Ok, sir. Do you feel you will be able to ramp up all the way up to 85-90% from May onwards?

**Mr. Vivek Kaul:** Yeah. Yes.

**Mr. Ricky Kriplani:** Ok. Thank you.

**Moderator:** Thank you, Mr. Kriplani. The next question is from the line of Miss Raj Laxmi from Capital Market. Please go ahead.

**Ms. Raj Laxmi Capital Market :** Good afternoon, sir. My question was what is your impact on the renewal of restrictions by EEU on imports from India with regards to polyester texture filament yarn? Is it impacting Indo Rama?

**Mr. G P Bhatia:** No, the feature has been removed already in the month of, I think, end of November and with the result that our exports of DTY have increased to EU.

**Ms. Raj Laxmi:** Ok. What is the percentage of increase, as a result?

**Mr. G P Bhatia:** Earlier, we were doing 500 tonnes a month but now we are doing 1,500 tonnes every month.

**Ms. Raj Laxmi:** And, what is the savings in power cost after the merger with Indo Rama Petrochemicals?

**Mr. Vivek Kaul:** It is about Rs. 2 crore per month.

**Ms. Raj Laxmi:** Rs. 2 crore per month. Ok. Thanks a lot.

**Moderator:** Thank you, Miss Raj Laxmi. Mr. Dave, at this time there are no further questions from the participants. Would you like to add any questions or comments?

**Mr. Jigar Dave:** Thank you, Rochelle. We can now request the management to give the final comments and highlight the future outlook of the industry & the company.

**Moderator:** All right. Thank you, Mr. Dave. Gentlemen of the management, would you like to add any comments?

**Mr. Vivek Kaul:** Yes, we would just like to say thank you to all the participants who took time out to listen to us and we would also like to say that we feel that we are at that stage of the industry where we have seen the worst, which is sort of behind us. We have 2 advantages going forward. One is that we have a lot of headroom in terms of increased pricing powers and cotton prices have shot up and they are likely to go up even further, as time passes. And on the other hand, the raw material prices have come down substantially over this year, and the outlook for the next 2-3 years is that the raw material supplies would be in an oversupply situation. So, despite crude being where it is, we expect raw material prices to remain soft.

Both these factors together, and thirdly, no major expansion of capacity is happening in the country, and with the economy growing at 8-9%, there is no

reason why polyester demand should not grow at a multiple of 9%. And, in the years to come, we will definitely ramp up our production. We will be able to sell our products that we make and generate much higher returns. We look forward for your cooperation and support.

Thank you.

**Moderator:**

Thank you, Mr. Bhatia, and thank you, Mr. Kaul, and Mr. Dave. Ladies and gentlemen, this concludes the conference. Thank you for joining Chorus call and you may now disconnect your lines.

Thank you.