

# INDO RAMA

## Indo Rama Synthetics (India) Limited Q2 & FY 2011 Results Conference Call November 10, 2010

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**Moderator:** Ladies and gentlemen, good day and welcome to the Indo Rama Synthetics Limited Q2 and H1 FY'11 earnings conference call. As a reminder for the duration of this conference, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during the conference call please signal an operator by pressing "\*" and then "0" on your touchtone telephone. Please note that this conference is being recorded. At this time, I would like to hand the conference over to Mr. Gavin Desa from Citigate Dewe Rogerson. Thank you and over to you.

**Gavin Desa:** Thank you. Welcome to Indo Rama Synthetics India Limited Q2 and H1 FY'11 earnings conference call. We have with us Mr. R. S. Singhvi, President and CFO, Mr. Anant Kishore, the Chief Operating Officer, Mr. Hemant Sharma, Business Head, Mr. L. P. Soni, Vice President (Finance), Mr. R. K. Vij, Vice President (Marketing), Mr. Jayant Sood, Company Secretary, and Mr. Rajesh Sharma, AGM Finance.

Before we begin, I would like to say that some of the statements made in this call maybe forward-looking in nature. A cautionary statement in this regard has been sent to you earlier. I would now like to invite Mr. R. S. Singhvi to give you introductory remarks and share with you the perspective of the performance in the quarter and the year going forward. Over to you Mr. Singhvi.

**R.S. Singhvi:** Thank you Gavin. Good morning I welcome everybody, I would like to thank you all for taking your time and being with us today. I will quickly go through our financial results for Q2 and H1 FY'11, where I would cover the key developments and financial highlights for the period under review after which we will be happy to discuss any questions that you may have in more details.

Our performance in Q2FY2011 has been quite encouraging. Just to give you a glimpse of our financial performance for the second quarter of FY2011, our Net Sales increased by 18% to reach Rs. 7,052.1 million from Rs. 5,973.7 million in Q2FY2010. This is mainly driven by significantly increasing demand for polyester both domestically and internationally. EBIDTA in Q2FY2011 stood at Rs. 576.2 million compared to Rs. 374.5 million in Q2FY2010, an increase of 54%. Our operating margins have also improved in the current quarter to reach 8.1% on the back of enhanced operating efficiencies. Profit Before Tax amounted to Rs. 62.6 million as against a loss of Rs. 203.2 million in the corresponding quarter last year. Profit After Tax in Q2FY2011 is Rs. 41.8 million translating into a Basic and Diluted EPS of Rs. 0.28.

During the quarter under review, we have witnessed improved demand for polyester in both domestic and international markets and we expect the demand to further rise on the back of higher cotton prices and other alternative fibres. The price gap between polyester and cotton has widened. Cotton prices have already reached 140 years high and are still rising due to short supply. The export markets are also doing well as the focus is now shifting to Asian countries for both raw materials and finished goods. With these

developments, we expect the demand for polyester to rise and we believe we are well positioned to cater to these demands.

I would also like to highlight that IRSL has recently issued 2 crore preferential convertible warrants to the promoter group companies convertible into equal number of equity shares within a period of 18 months from the date of allotment. The fund raised will be utilised towards various corporate and operating initiatives. IRSL is also planning to set up a 45 MW power project to its existing generation capacity of 82.5 MW.

On the back of our large production base, high- tech and sophisticated plant, and improved market scenario, I believe we are well placed to explore opportunities going forward. We continue to see the textile industry to be strong and healthy and believe firmly in the long term growth opportunities of this industry in general and the polyester sector in particular. This brings me to end of my discussion and we would now be happy to discuss any specific details or questions that you may have. Thank you.

**Moderator:** The first question is from the line of Nilesh Doshi from Techno Shares & Stock. Please go ahead.

**Nilesh Doshi:** Can you share the production numbers for chip, PSF and POY in Q2FY11?

**R.S. Singhvi:** The chip production has gone up in this quarter. Our PSF production has been around 40,000 tonnes, POY is around 40,500 tonnes, FDY is 2,236 tonnes, DTY is 10,600 tonnes and chips is 7,900 tonnes.

**Nilesh Doshi:** And the sales data?

**R.S. Singhvi:** PSF is 50,800 tonnes, POY is around 33,000 tonnes, FDY was 2700 tonnes, DTY was about 11,500 tonnes and chips is around 8,800 tonnes.

**Nilesh Doshi:** That means we had some hangover of inventory in Q1 more or less we have come out of the hangover?

**R.S. Singhvi:** We have liquidated the Finished Goods inventory of about Rs. 116 crore in this quarter.

**Nilesh Doshi:** In terms of our procurement in the sales strategy, you normally buy paraxylene on a monthly firm price from Reliance. How exactly are the trades done? In terms of sales of PSF or POY or FDY, do we have spot selling or do we have a contractual selling?

**R.S. Singhvi:** We do not buy paraxylene. That is the raw material for our suppliers of raw material. We buy only PTA and MEG and that we buy from international market & domestically from IOCL.

**Nilesh Doshi:** Do they have a firm price for a month or are the prices are on a daily fluctuation?

**R.S. Singhvi:** We have an agreement on a formula base from IOCL and most of the international markets are working on formula base.

**Nilesh Doshi:** What about our product sales?

**R.S. Singhvi:** Our product sale is based on the demand supply requirements.

**Nilesh Doshi:** What is that export and domestic component?

**R.S. Singhvi:** In Q2FY11 export is in the region of about 30% and 70% is the domestic market.

**Nilesh Doshi:** Can give me the broad conversion of PTA and MEG to chip?

**R.S. Singhvi:** PTA is 0.86 and MEG is 0.35 on the weight basis. We consume 1.21 equivalents to the finished products.

**Nilesh Doshi:** Could you get the average realization?

**R.S. Singhvi:** Blended average realization for the products for Q2FY11 is roughly Rs.72.

**Nilesh Doshi:** Can I get the individual break up?

**R.S. Singhvi:** PSF is Rs.69, POY is Rs.69, FDY is Rs.83, DTY is Rs.83 and chip is Rs.58.

**Nilesh Doshi:** I believe the prices of PSF have shot up by 25% in last 10 days?

**R.S. Singhvi:** PSF prices are continuously going up. In the last two months, the market has been very volatile. The demand has been very good and raw material prices are also rising. Cotton prices have also risen very aggressively in the last two or three months so we have also revised our PSF prices in last two months.

**Nilesh Doshi:** Is the current price for PSF in the range of Rs. 75 or 80?

**R.S. Singhvi:** PSF delivered price is about Rs.107, which includes excise duty also.

**Nilesh Doshi:** So Rs. 69 you mentioned above is without excise?

**R.S. Singhvi:** Yes without excise.

**Nilesh Doshi:** What is the current realization that we are getting without excise for these products?

**R.S. Singhvi:** Current realization for PSF is Rs. 107, POY Rs. 84, FDY Rs. 89 and for DTY Rs. 93.

**Moderator:** The next question is from the line of Amol Rao from Antique Stock Broking. Please go ahead.

**Amol Rao:** PTA and MEG prices on a Y-o-Y basis have declined by 15% to 20% while prices of PSF and POY prices are about 15% to 16% higher on Y-o-Y basis which implies a delta of at least 25% to 30% in profits. Surprisingly our EBITDA does not reflect this. Is there some loss in conversion or are we holding on some high cost inventory?

**R.S. Singhvi:** Our EBITDA started improving from the month of September. Up to August the demand was muted so July and August have not been very good months. However we have done well in the month of September and now things are going well.

**Amol Rao:** Is it because of the inventory that we have not reflected in the EBITDA or is it because of something else?

**R.S. Singhvi:** Our sales have picked up from the month of September and till then we had not been able to liquidate our inventory which had accumulated in the last quarter. Both the products are different and demand supply forces are different. In our products, now the demand is very good and realizations are improving.

**Amol Rao:** Why are we putting in more power when we are not registering any increase in revenue in that segment?

**R.S. Singhvi:** Our present capacity of power is 82.5 MW out of which 52.5 MW is the diesel generating power which are not viable in view of the rising input cost. So we are basically replacing the DG power with the coal power. That is the idea to increase the power and reduce our cost.

**Amol Rao:** What would be the approximate cost of this?

**R.S. Singhvi:** The power plant of 45 MW will cost around Rs. 200 crore.

**Amol Rao:** Have we finalized the project?

**R.S. Singhvi:** We are in the process of finalizing the technology supplier.

**Amol Rao:** On what price have been the Rs. 2 crore preferential convertible warrants issued at?

**R.S. Singhvi:** There is a formula as decided by SEBI which is based on the previous six-month average closing price or the previous two weeks average closing price, whichever is higher. So we have issued the warrants at a price of around Rs.40.

**Amol Rao:** Are we raising about Rs. 80 crore?

**R.S. Singhvi:** Yes.

**Amol Rao:** Would this imply that incremental debt of around Rs. 120 crore would have to be taken up only for the power plant?

**R.S. Singhvi:** Besides this we have got other two or three projects also which will also be part of this expansion.

**Amol Rao:** How much raw material inventory are we holding on to now?

**R.S. Singhvi:** PTA supplies are not very comfortable so we are gradually ramping it up.

**Amol Rao:** As a practice how many months inventory do we hold on to for each raw material?

**R.S. Singhvi:** In a plant we keep about a week's inventory. Other pipeline order inventories are there as we keep importing a lot of materials from the international sources.

**Moderator:** The next question is from the line of Aman Sonthalia from Suvridhi Capital. Please go ahead.

**Aman Sonthalia:** What is the current delta of POY, PSF, FDY and Chips in the current quarter and in the last quarter?

**R.S. Singhvi:** PSF is around Rs. 13.50 for Q2FY11 which was around Rs. 9.50 in Q2FY10. Delta for POY and FDY in Q2FY11 is around Rs. 14 and Rs. 25 respectively.

**Aman Sonthalia:** What is the current delta right now in PSF and POY?

**R.S. Singhvi:** The current delta in PSF is about Rs.20 and POY is about Rs.16.

**Aman Sonthalia:** That means there is a huge increase in the raw material cost?

**R.S. Singhvi:** Yes, raw material costs have risen up very sharply.

**Aman Sonthalia:** How is the export market right now? Is it more profitable than the domestic market?

**R.S. Singhvi:** I would say domestic is more profitable but export margins have also improved over the time. Export market is also showing the signs of improvement. We are making profit in export market too. Earlier we were utilizing the capacity but now export market is also revenue and profit churning.

**Aman Sonthalia:** What is the difference in profit margins in local market and export market?

**R.S. Singhvi:** In this quarter export is giving us better margins as there is a huge demand in the international markets.

**Aman Sonthalia:** Are we exporting chips as well?

**R.S. Singhvi:** No we are not exporting chips.

**Aman Sonthalia:** How is the margin in the chips right now? Is it profitable to make chips or is it more profitable to make POY and PSF?

**R.S. Singhvi:** It is more profitable to make PSF and POY than to make chips.

**Aman Sonthalia:** How is the raw material scenario right now?

**R.S. Singhvi:** There is a lot of volatility in raw material prices as of now. The prices are changing almost everyday. Prices are rising because of the increasing consumption of PSF and POY and therefore PTA and MEG prices are also going up continuously. PTA prices as on September 1 were around USD 900 which is now around USD1,350. MEG prices as on September 1 were around USD 807 which is USD 1,182 now.

**Aman Sonthalia:** Why are the other peer companies like JBF showing such high profits when the product profile is the same?

**R.S. Singhvi:** It is difficult to say why their performance is better than ours. Their product range is slightly different than as they are primarily producing polyester chips and the margins in polyester chips are quite good.

**Aman Sonthalia:** Going forward will the market of PSF will be better or POY will be better?

**R.S. Singhvi:** As of now it looks like both the product will do well on a medium to long term perspective. Currently, PSF is doing better but POY is also catching up.

**Aman Sonthalia:** Which are the products in the technical textile where polyester is being used?

**Anant Kishore:** There are many fibres that are used in technical textiles, it is not only polyester. Nylon & poly propylene are very prominently used. Polyester is mainly used in the hygiene fibers (for hospitals & wipes) and for filling application like quilts & pillows etc.

**Moderator:** The next question is from the line of Niraj Mansingka from Edelweiss. Please go ahead.

**Niraj Mansingka:** Where do you see the incremental demand coming from in the domestic market?

**R.S. Singhvi:** The domestic market scenario is very encouraging in the sense that overall GDP growth is so high that the product demand across all the products are rising and our products are also witnessing a significant increase in the consumption. Besides that the prices of our competitive fibers like cotton and viscose have shot up. The cotton prices are all time high and it has touched USD 1.66 which is a 140-years old record. When compared to cotton the PSF prices are only Rs.115-119. So naturally there has to be some shift from cotton to polyester. Secondly the availability of cotton is again a question mark, because the area for the cotton production cannot increase beyond a point. It is a kind of saturation where the cotton production cannot go up beyond a point so people are naturally going to the synthetic fiber and we have the polyesters available so we are able to supply and meet our customer's requirement.

**Niraj Mansingka:** There is an investment in our company called Indo Rama Ventures, which is a listed entity and it seems that it is a significant value for your company going ahead. Why do you have a policy of now having a debt as well as holding that investment whether that investment has anyway given good return?

**R.S. Singhvi:** We expect that these are two separate fields. Debt is taken for the regular deployment in the business operations and investment pertains to strategic investment. Strategic investment is a long-term view and debt is just for the operations.

**Niraj Mansingka:** Do you see 3% holding as a strategic investment?

**R.S. Singhvi:** We feel that the investment is going to give us much higher returns so we expect that this investment is to be retained.

**Moderator:** The next question is from the line of Viral Doshi from Value Quest Research. Please go ahead.

**Viral Doshi:** Do you feel that next year the prices of your products should also fall in line with the probability of falling cotton prices?

**R.S. Singhvi:** My view is a little different. I think the future is also very strong. I cannot give you any logical reason beyond this. I do not have any feeling that there will be a significant change in the cotton scenario in 2011 unless the area allocated to cotton goes up very high and production also goes up very high and demand driven is stagnant.

**Moderator:** The next question is from the line of Raj Gandhi from Principle Mutual fund. Please go ahead.

**Raj Gandhi:** Even before the current rise in cotton prices the gap between cotton and polyester was around 50% cheaper. Can blending change so much overnight?

**R. K. Vij:** Cotton as on today is around Rs. 46,000 to 47,000 per candy yield. The clean cotton cost is around Rs.160 per kg and the cotton is being blended in the viscous and polyester. When the cotton is costly then the polyester blend increases from 52% polyester and 48% cotton to 67% polyester to 33% cotton. We are also manufacturing polyester in different length: 32 mm, 34 mm, 38 mm which can easily be blended with cotton on the same machinery and with the same set up.

**Moderator:** The next question is from the line of Amit Rastogi from Antique Stock Broking. Please go ahead.

**Amit Rastogi:** Can you explain the reasons for the significantly higher other operating income?

**R.S. Singhvi:** The major reason is forex gains. We are importing a lot of raw materials and because of the strengthening of the Rupee and weakening of the Dollar it has given us revenues so that is added to our other income.

**Amit Rastogi:** How much is the foreign exchange gain that you have reported?

**R.S. Singhvi:** About Rs. 18.5 crore in this quarter.

**Amit Rastogi:** Your export is around 30% and import is hardly 30%-40%, so where is the delta coming from?

**R.S. Singhvi:** We take calls on the payable foreign exchange and we form our own view. We felt that the Rupee is going to strengthen and the dollar is going to weaken because of a lot of inflows into the country. We had decided to keep our USD exposures open and on the other side we had sold our receivables but we have kept our tables open and that is given us the gain.

**Amit Rastogi:** Can this be considered as a repetitive thing?

**R.S. Singhvi:** It depends upon the view at the appropriate time.

**Amit Rastogi:** In case oil price rise further from here, will you be able pass on the increased cost of PSF and POY?

**R.S. Singhvi:** The PSF and POY prices are guided by the raw material increase as well as the demand and supply scenario. We are still in midst of both the constraints but PSF demand is going up. It is going up because of the general improvement in the domestic economic condition and the international requirements for these products are going up because of the non-availability of cotton. We have improved our dominance the pricing now. Historically, we were not able to control these prices, but now the scenario is changing. As the alternate fiber prices have gone up very high therefore we have some control on the pricing

**Amit Rastogi:** Would you be able to increase the prices even further from the current levels?

**R.S. Singhvi:** Yes, if the cotton prices are more than Rs.160 then there is good headroom to increase the prices because there is no alternate fiber available to the textile industry. We have a good case for improvement in the prices, however, depending upon the situation.

**Amit Rastogi:** Have the utilizations of the textile mills gone up in last two quarters?

**R.S. Singhvi:** Textile mills are doing equally well. Our customers are also getting good realizations and good EBITDA margins. If you look at the current yarn prices, we feel that they are in a very comfortable situation as they are also able to absorb the increase given by us in form of PSF and POY products. Despite the increases in the prices of our finished goods they are able to pass it on to their customer. We are able to improve our capacity utilization gradually.

**Moderator:** The next question is from the line of Naga Deepika from Capital Markets. Please go ahead.

**Naga Deepika:** Can you give us the delta of chips and DTY for the current quarter and corresponding previous quarter?

**R.S. Singhvi:** Average Chips delta is around Rs.3.5 for July-September quarter and DTY is Rs.14.0.

**Naga Deepika:** While considering the chips margins you said the conversion of PTA and MEG was 0.66 and 0.33. Am I right?

**Anant Kishore:** The PTA consideration is 0.86 not 0.66.

**Naga Deepika:** On that basis if I calculate the margins, it is above Rs.17 or so. Where is the difference lying?

**R.S. Singhvi:** Delta is on the raw material, which means the price minus the raw material price.

**Naga Deepika:** I have the margins of around 17.5%, and I could also not understand why production of chips is not feasible for our side for good profitability. The domestic demand will also boost the textile grade chips demand so we could also have the possibility of improving the chip demand. I could see the capacity utilizations of our PSF was also lower and polyester chips was also still lower at 36% in the quarter. Can you just shed some light on this?

**R.S. Singhvi:** Chips are not our major products. Normally the plants are direct continuous plants without making chips so you can convert PTA MEG into the melt and then you can make the POY and PSF. This is the modern technique. The old technique was that you first convert into chips and then you melt them. So we always produce PSF and POY without converting into chips. We are directly melting into the POY and fiber so that our chip utilization is less, which is a low margin product for us.

**Naga Deepika:** What do you pay, as now I could see that the PSF and POY realization to be at the same point? Why is that like inventory which before has been...?

**R.S. Singhvi:** If you look at our Q1 result, then we were carrying a lot of inventory, so during the second quarter, we had cleared that inventory. As a result, our utilization has not increased, so now in this quarter, we have liquidated all the inventories and now we are increasing our utilization.

**Naga Deepika:** So basically you mean to say H2FY'11 will have a higher capacity utilization?

**R.S. Singhvi:** Definitely.

**Naga Deepika:** And on the business strategy, there has been subdued growth in our company's business in the first half. What is the focus on next? Is it more value added product? How are we trying to improve our market share and the products mix? And what is your strategy in the next two years for the polyester industry?

**R.S. Singhvi:** We are also in the process of utilizing our capacities. That is our primary objective. We have got enough capacities, and besides that, we are adding the value added products on the table. We are adding the DTY machines, and going forward, we will improve the value added products by using technology to improve the product profile. We have already improved some products; we have inducted new products in DTY segment. We will not only increase our production and productivity, but also add to the new product baseline.

**Naga Deepika:** And we will see full capacity in the next three years?

**R.S. Singhvi:** By the year end, we will reach to full capacity. Already we have started a few machines from this month so from now onwards until March, full additional capacity will come.

**Naga Deepika:** What is the cost for this?

**R.S. Singhvi:** These are all sourced indigenously, and they are not expensive. The project cost is Rs. 14 crore for this capacity utilization.

**Naga Deepika:** And this is just extension line to our...

**R.S. Singhvi:** This is just an extension of the current capacity.

**Naga Deepika:** And going ahead can you give us your EBITDA margins? Where do you expect your EBITDA margins to stand?

**R.S. Singhvi:** Currently, our EBITDA margins have improved to about 8.1%, so we see that going forward. the demand scenario is increasing. Capacity utilization is also increasing, and the margins are improving so going forwards we see improvement in the EBITDA margin.

**Naga Deepika:** For the full year, will it be around 8%?

**R.S. Singhvi:** Full year it should be better, but it is difficult to say the exact number.

**Naga Deepika:** It should be better than 8%.

**R.S. Singhvi:** Yes.

**Naga Deepika:** If you can permit me, other companies have witnessed plant shutdowns in domestic for raw material you also said while answering one of the questions that you also bought PTA from domestic companies. So did we see any impact on the international front or from the domestic front on supply-side constraints on PTA and MEG? And how are we trying to improve it?

**R.S. Singhvi:** MEG there was no constraint. We have the long-term contract in hand, and we have got stable and continued supply. We did get some impact in PTA because of the IOCL turnaround. They had closed their plants for sometime so that has impacted our raw material purchases. We had to resort to the international market, but since the demand is continuously going up, we did face some constraint in PTA purchases.

**Naga Deepika:** Are we able to close the gap of our regular requirement and the requirement we get from domestic imports?

**R.S. Singhvi:** Yes, we have been able to tie up raw materials purchases with the international sources on continuous basis, which has helped us. We had tied over part of the requirements, which has created the problem because of the IOCL closure, so part of the requirement was covered from the international market. Gradually, our sourcing from international markets has increased, and we will be able to source the required material from domestic as well as international sources.

**Anant Kishore:** We are sourcing from our sister concern, which is Indo Rama at Thailand, so we are mainly getting from Thailand in the international market and then partly from IOCL, so this is our major sourcing pattern.

**Moderator:** The next question is from the line of Jignesh Kamani from MF Global. Please go ahead.

**Jignesh Kamani:** I want to know about current utilization which we have occurred in the month of October on various products like chip and yarn?

**R.S. Singhvi:** Our plant is operating at about 70% capacity.

**Jignesh Kamani:** What is the outlook in FY2011? Are we planning to increase the capacity of few of the product apart from the DTY?

**R.S. Singhvi:** As of now we are not contemplating. Our primary focus is to utilize the full capacity. At the same time we are exploring various options, looking to the long-term view of the market. At the appropriate time we will decide as to what actions are needed going forward.

**Jignesh Kamani:** Right now our capex will be only for power plant and DTY?

**R.S. Singhvi:** Yes for this year we have chosen these projects.

**Jignesh Kamani:** When will the power plant get commissioned?

**R.S. Singhvi:** Our power plant will get commissioned by 2012-13.

**Jignesh Kamani:** Has the power realization improved or is it still languishing on Rs.2.5 - Rs.3 in merchant business?

**R.S. Singhvi:** Some improvement is there in the peak load, but round the clock basis there is no improvement.

**Jignesh Kamani:** Will we continue to run our thermal power plant and not the furnace oil?

**R.S. Singhvi:** Yes, for the furnace oil we do not expect any improvement in utilization in the current quarter at least.

**Jignesh Kamani:** Given the current outlook what kind of a production can we do this year and next year?

**R.S. Singhvi:** Our current utilization is around 70% and in the next two quarters we gradually increase it to 80% - 90% for our major products like PFS and POY. That is our main target to reach to 90% level. Depending on market demand and supply, we hope to have a lower inventories at the end the year.

**Moderator:** The next question is from the line of Vineet Maloo from Birla Mutual Fund. Please go ahead.

**Vineet Maloo:** What is the delta for your products in November that we looking at based on current prices?

**R.S. Singhvi:** The deltas are higher in November also. As of now PSF is Rs.20 and POY is Rs.16. FDY has come down, but it is at Rs.28 DTY is of Rs. 14.0.

**Vineet Maloo:** When you talk about yarn, is it over an above fiber?

**R.S. Singhvi:** Yarn is about our own DTY yarn. Definitely DTY yarn is over POY. We are not making spun yarn.

**Vineet Maloo:** Would you be able to tell the same about Q1?

**R.S. Singhvi:** In Q1 PSF was around Rs.14, POY was around Rs.14, FDY was Rs. 28 and chips was around Rs. 2.5.

**Vineet Maloo:** DTY has more or less remained same.

**R.S. Singhvi:** Yes, because of we take the gain in POY.

**Vineet Maloo:** What has been happening with FDY as it was 28 in Q1, it came to 25 in Q2 and 26 currently?

**R.S. Singhvi:** Lot of new capacities for FDY have come up over the period so gradually the demand is catching up. As of now there is a lot of surplus capacity and the utilization of the capacity is also very low so that is why the margins are coming down.

**Vineet Maloo:** Could you indicate how much was POY, FDY and DTY in terms of sales?

**R.S. Singhvi:** In terms of sales, PSF is 50,800 tonnes, POY is 33,000 tonnes, FDY 2,700 tonnes, DTY is 11,500 tonnes and chip is 8,800 tonnes.

**Moderator:** The next question is from the line of Dhvani Modi from ICICI Securites. Please go ahead.

**Dhvani Modi:** Are we seeing any capacity addition in the PTA and MEG domestically or internationally?

**R.S. Singhvi:** Domestically the capacities have already come on line. Gradually the plants are in the process of stabilization. Domestically, the capacity addition had already taken place with Mitsubishi Corporation, any announcement of new plants are not there as of now. Internationally yes new capacities are coming up, but more than that the demand is also coming.

**Dhvani Modi:** Are we expecting some pressure on the prices going forward?

**R.S. Singhvi:** We can expect the PTA and MEG's demand will be good.

**Moderator:** The next question is from the line of Aman Sonthalia from Survidhi Capital. Please go ahead.

**Aman Sonthalia:** Will POY prices also catch up with the price of PSF or will it be lesser than PSF going forward?

**R.S. Singhvi:** It is already catching up. We expect that POY will also do well and margins and pricing will also rise.

**Aman Sonthalia:** The delta in POY is the same of the last quarter whereas delta in PSF has increased a lot?

**R.S. Singhvi:** POY delta is increasing in the current quarter. July-September quarter was not too good for POY.

**Aman Sonthalia:** Will it catch up with PSF going forward?

**Anant Kishore:** It certainly will catch up because cotton yarn prices, which was around Rs.210 is now at Rs.238 per kg and in comparison to that, spun yarn under polyester yarn, which was around Rs.115 per Kg, now has touched Rs.155 per kg whereas the filament yarn is moving at around Rs.115 to Rs.118 per kg only. If you see a cloth made of cotton, polyesters and then filament yarn so ultimately the filament yarn will catch up.

**Aman Sonthalia:** A lot of capacity addition is announced by Reliance in PSF. Will it create overcapacity in market in future or will the demand catch up with that capacity expansion?

**R.S. Singhvi:** There is no capacity announcement in the PSF sector, so far. Reliance is only adding in POY segment.

**Aman Sonthalia:** So will there be overcapacity for POY going forward?

**R.S. Singhvi:** No, because the demand is going up. I do not think that it would be overcapacity, the new supply will also get consumed.

**Aman Sonthalia:** What is the current conversion cost of chips to POY and PSF?

**R.S. Singhvi:** We are directly converting from PTA MEG into POY and PTA. We are not converting chips to POY.

**Aman Sonthalia:** What is the cost?

**R.S. Singhvi:** The conversion cost over raw material will be between Rs.9-10 but we do not do the conversion.

**Aman Sonthalia:** The chips we are making are general chips or specialized chips?

**R.S. Singhvi:** These are general textile chips.

**Aman Sonthalia:** Are there some premium chips also available in the market?

**R.S. Singhvi:** Yes those who are chip producers, are making different kind of chips as well.

**Aman Sonthalia:** What is the price difference between ordinary chips and premium chips?

**R.S. Singhvi:** Rs.1 to Rs.2 only. It depends upon the kind of chips.

**Moderator:** The next question is from the line of Jignesh Kamani from MF Global. Please go ahead.

**Jignesh Kamani:** You mentioned that we are carrying a lot of inventory in Q1, which will liquidate in Q2, is it circulated in the chunk of profit that has come from the low cost inventory because the prices of both products have shot up in Q2?

**R.S. Singhvi:** We have derived some gains, but in Q2 the prices have not risen significantly. Prices have started rising in late September and October. The major improvement has not taken place in that quarter. So that is why the performance has not improved in a big way.

**Jignesh Kamani:** Is there is no benefit of low cost inventories on a comparable basis?

**R.S. Singhvi:** I would not say that there was no benefit. The benefit was there, but the larger benefit has come later.

**Moderator:** Ladies and gentlemen that was the last question. I would like to hand the floor over to Mr. R.S. Singhvi for closing comments.

**R.S. Singhvi:** Thank you gentlemen for bearing with us all along and we hope that going forward you will see a better performance of the company.