

## SPECIAL REPORT

# A silver lining

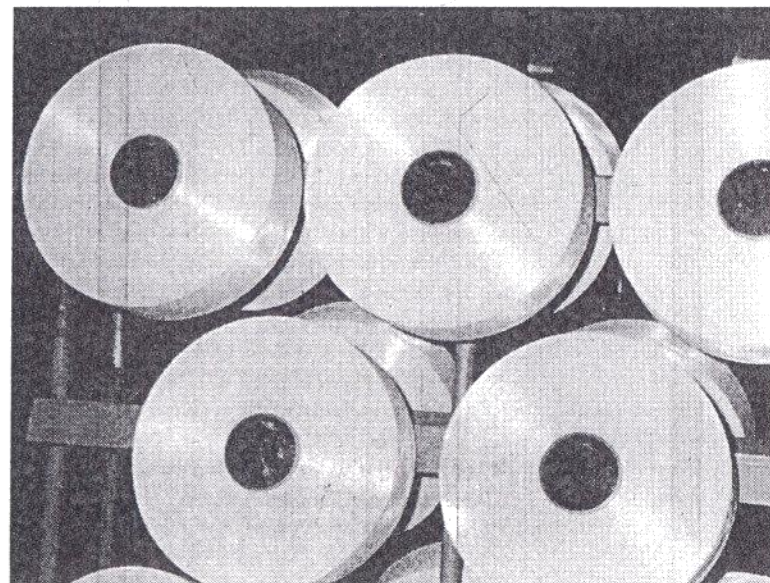
The correction of an inverted duty structure might not have a major impact on polyester prices

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**P**olyester (partially oriented yarn (POY)/polyester staple fibre (PSF) players like Indo Rama, JBF Industries, Garden Silk Industries, Century Enka and smaller players like Sanghi Polyester are a happy lot. Last month, the government agreed to their request and reduced excise duties on key raw materials (fibre intermediates).

The duty on purified terephthalic acid (PTA)/di-methyl terephthalate (DMT) has been slashed from 16 per cent to 8 per cent, while the same on mono-ethylene glycol (MEG) is down from 16 to 12 per cent. Their prices have gone up by over 15 per cent and 10 per cent respectively since last three months. Duty on polyester chips has also been reduced from 16 to 8 per cent. According to Crisil Research, this is expected to lead to a reduction of excise duty of Rs 100-120 crore (8 per cent decline). But reactions from industry players to passing on the benefits and reducing prices of final products like POY/PSF are mixed.

Says O P Lohia, chairman and managing director, Indo Rama Synthetics, "POY and PSF prices will not be impacted as this is just a correction of the anomaly in Budget 2006-07 (which made life difficult for companies on the cashflow front). Moreover, there will still be some accumulation in the Modvat credit due to a partial reduction on duties of MEG." On the impact of the measure, RL Toshniwal, chairman and managing director of Banswara Syntex and chairman of Synthetic Rayon Textile Export Promotion Council says, "There has not been a corresponding reduction in prices and in fact PSF



prices have increased by Rs 3.75 per kg after the announcement."

In the Budget 2006-07, the government had reduced the excise duty on all man-made fibre yarns from 16 per cent to 8 per cent while keeping the duties on raw materials unchanged at 16 per cent. This led to an accumulation of Modvat credit on the books of polyester players who could not adjust the excess duty paid. Being in the commodity business and facing stiff competition from cotton yarn, they could not pass on the costs though, recently many of them have hiked prices. This led to low demand and operating rates in an already fragmented market.

## EXCISE CUT...

Excise duty (%)	Budget 2006-07	Modi
POY/PSF	8	
PTA	16	
DMT	16	
MEG	16	

## ...PERKS UP STOCKS

	Current market price (Rs)	% cl
Indo Rama	53.10	11.1
JBF Industries	91.30	11.1
Century Enka	131.15	10.3
Garden	53.45	23.7
Sensex	11192.46	8.1

\* Change since July 20, 2006

The anomaly has been corrected now except on MEG to some extent. P N Thakore, director-finance, JBF Industries says that with the rationalisation of duties, companies will be able to utilise their working capital funds better and volumes will go up.

Commenting on the impact, Amol Rao, analyst, PINC Research said, "More than the turnover growth, companies are expected to report better bottomline growth due to twin benefits of higher offtake and excise benefits. Even a marginal reduction in per unit prices will push up volumes."

Though the good news of reduction in excise duties did not percolate down to the stock price movements of the major beneficiary companies like Indo Rama, JBF Industries, Century Enka and Garden Silk immediately, all of them have outperformed the Sensex over a month (see *Perks up stocks*). The second largest polyester manufacturer—Indo Rama—now trades at 8x and 3x for FY07E and FY08E respectively. Similarly, the largest polyester chip maker and among the top three polyester players—JBF Industries—is trading at about 9x for FY07E.