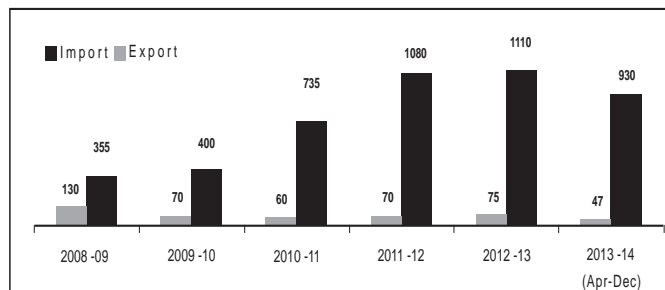




# RAJ RAYON INDUSTRIES LIMITED

(FORMERLY KNOWN AS RAJ RAYON LIMITED)

## Polyester Filament Yarn Trade (In US\$ mn.)



Major demand for polyester filament yarn has come from Turkey and Brazil which have a trade share of 23% and 22% respectively in India's total exports of PFY. Mexico, Peru and Egypt are other major export markets for India.

## Major Factors Impacting Indian Polyester Sector

### Raw material

In India, there are only 3 suppliers of PTA with a combined capacity of ~5 Mn. tonnes. The availability of PTA has been reduced in 2013-14. Due to shortage and erratic supply of PTA in 2013-14, buyers had to import the products which became expensive on account of Rupee depreciation. In addition, the global prices of PTA remained uncertain as shown in the table below.

### PTA and MEG Prices (Apr to Dec 13)

Month	PTA price	MEG price	PTA (CFR China)	MEG (CFR China)
	₹ / MT	₹ / MT	US\$ / MT	US\$ / MT
April-13	64000	59600	1042	1000
	63500	60100		
May-13	61500	58700	1049	990
	62500	58900		
June-13	64500	60900	1058	947
	67200	60300		
July-13	69500	62400	1070	1024
	70400	65800		
August-13	71000	69500	1098	1099
	75000	73900		
September-13	77500	78300	1064	1070
	76900	77600		
October-13	72900	73000	1023	1053
	71400	72000		
November-13	68200	71200	992	1027
	68900	71500		
December-13	68000	70100	999	1044
	68200	71600		

### Market Demand

The global fibre and textile industry has faced demand recession in consumer segment during the past 2 years due to

volatile economic situation in the US & Europe and geopolitical disturbances in Africa and the Middle East Region. Only Asia's fiber consumption has managed to increase modestly while that for the rest of the world declined.

The slowdown in economy led to muted growth of polyester demand, whereas the capacity was surplus. This caused price reduction of yarns as buyers turned cautious given the slow downstream demand and few units closed to cut losses. As the result the overall market liquidity suffered.

### Competition Side

Industry saw commissioning of several manufacturing plants in 2013-14 causing capacity to increase at a time when demand was low. Instead of passing on the higher raw material costs; adverse conditions led chips manufacturers to sell at loss in order to keep their continuous plants running.

### Polyester Yarn Capacity Addition in FY14

In Mn kg	2012-13	2013-14(Est.)	Change%
POY production	2040	2340	15%
POY capacity	2870	3440	20%
<i>Integrated</i>	<i>1230</i>	<i>1800</i>	<i>46%</i>
<i>Non Integrated</i>	<i>1640</i>	<i>1640</i>	<i>-</i>
POY Utilisation rate	70%	68%	
POY Domestic demand	1870	2110	13%
POY Exports	170	230	35%
FDY Production	505	600	19%
FDY Capacity	600	850	42%
FDY Utilisation Rate	85%	70%	
FDY Domestic Demand	480	550	15%
FDY Exports	25	50	100%

### Future Outlook: Global Scenario

#### Consumption

The global consumption of polyester filament has grown at a rate of 8% from ~10 million tons in 2000 to ~26 million tons in 2013. It is expected to increase to ~31 million ton by 2020. China accounts for the major share of ~ 74% of the total polyester filament consumption followed by India with a share of ~8%.

### Polyester Filament Mill Consumption (In '000 tons)

Region	2000	2010	2013	2015 (P)	2020 (P)
China	3430	15421	18971	19680	21794
India	806	1624	2270	2780	3675
South Asia (excluding India)	918	1234	1491	1640	2057
Latin America	460	489	554	584	796
Taiwan	1037	533	483	463	393
Turkey	321	447	414	399	500
Others	2836	1707	1471	1413	1506
World	9808	21455	25654	26959	30721

Source: Wazir Advisors



The global consumption is expected to grow at a rate of 4% from 2010 to 2020. High growth of 9%, 5%, 4% and 5% is expected in India, Latin America, East Europe and South Asia respectively.

**Emerging Scenario in India**

**Raw material**

Over next few years, there will be major capacity addition of PTA and MEG in India. 4.3 mn. tons of PTA capacity will be added till the year 2016 while capacity of MEG will increase by 0.75 mn. tons. As a result of this capacity addition India will become a net exporter of PTA from a net importer at present. Higher domestic capacities will keep a rein on price inflation in addition to ensuring seamless availability.

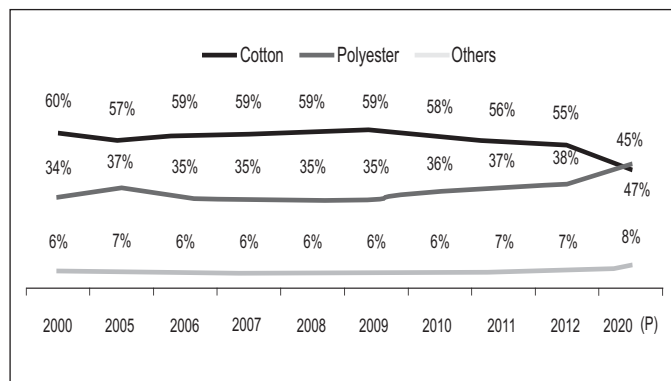
**Market**

The medium to long term market demand of polyester in India as well as globally is positive.

**Global production and Indian Demand**

Million tons	2012	2015	2020	CAGR
Global Polyester Polymer Production	59	70	93	6%
Indian PFY demand (textiles)	1.9	2.5	4.2	11%

**Fibre Consumption in India**



In India the share of polyester in total fiber consumption is expected to change from 38% currently to 47% by 2020. The drivers of this change will be:

- Limited supply and higher prices of cotton in long term
- Revival of economy (both Indian and in major markets) and hence demand
- New uses and applications including technical textiles
- Increased sourcing and presence of global brands in

India

- Growth of downstream industry in synthetics value chain
- Increasing preference of consumers towards synthetic product categories like sportswear, dresses, etc.
- Technical improvement in fiber causing replacement of naturals in several applications

**Competition**

Over next couple of years, there is no major capacity addition planned in filament yarns. With growth in demand the market will break from being a buyer's market at present and the capacity utilization will increase from present level. Some consolidation as well as modernization activity will support the industry profitability as well.

**Opportunities:**

- Buoyant domestic economy leading to higher market growth
- Growth of organized retail would increase the consumption of apparel
- 100% FDI allowed in textile sector through the automated route.
- Export demand expected to pick up with global economic recovery leading to increased opportunities in export market
- Demand of Man-made Fibers (MMF) is likely to improve, primarily driven by increased substitution of cotton by MMF.

**Threats:**

- Volatility of input costs
- Shortage of raw material in domestic market
- Cost increase in crude oil based raw materials due to weak rupee.
- High fluctuation in INR/USD rates had adverse impact on the company's cost structure as the company was relying on imports of its main input raw material viz. PTA

**Internal Controls:**

RRIL's well defined organisation structure, policy guidelines, predefined authority levels and an extensive system of internal controls, ensure optimal utilisation and protection of resources, IT security, accurate reporting of financial transactions and compliance with applicable laws and regulations.

- RRIL has adequate system of internal control in place to ensure that assets are safeguarded against loss from unauthorised use or disposition, and that transactions are authorised, recorded, and reported correctly.
- RRIL's internal audit function is empowered to examine the adequacy, relevance and effectiveness of control systems, compliance with laws, regulations and policies, plans and

Source: Wazir Advisors