

Press Release

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Lower PTA prices to boost operating profits of polyester yarn makers by 15-20%

Coronavirus outbreak and ADD removal, to keep PTA prices under pressure

Operating profits of polyester yarn manufacturers are set to rise ~15-20% next fiscal because of a 150-200 basis points' (bps) spurt in operating margins stemming from lower raw material prices, healthy demand for polyester, and higher blending in garments and other products, an analysis of 45 CRISIL-rated polyester yarn manufacturers shows.

Raw material cost has started moderating because the outbreak of Coronavirus is likely to impact demand for polyester yarn in China, which accounts for ~65% of global demand. As a consequence, the price of purified terephthalic acid (PTA) – a key raw material that accounts for more than half of the sales price of polyester yarn – is expected to be under pressure in the near term. Moreover, PTA capacities in Asia are set to rise ~20% over the next couple of years, which will keep prices in check.

Add to that the removal of anti-dumping duty announced by the Government of India on February 2, 2020. Earlier, in October 2013, the government had imposed a duty of \$23-160 per tonne of PTA imported from various countries. This gave domestic manufacturers significant bargaining power. The removal of duty will make India's PTA imports (~10% of total PTA demand) cheaper by \$25-30 per tonne, given more avenues for sourcing. Consequently, input cost for polyester yarn manufacturers would be ~3-4% lower, with PTA prices seen down Rs 2,000-3,000 per tonne.

Falling prices and adequate availability of PTA will, in turn, help polyester yarn manufacturers step up production and utilisation levels too, given healthy demand and better export competitiveness. As of fiscal 2019, India's total PTA manufacturing capacity was ~6.3 million tonne (MT) and total PTA demand ~6.9 MT – resulting in 10% of demand being met through imports. Constraints in domestic availability of PTA had limited capacity utilisation at yarn manufacturers to 75-80%.

Moreover, any disruption in supply chain or production of polyester yarn in China, which has a global exports share of ~50%, may provide higher export opportunity to Indian polyester yarn manufacturers.

Says Anuj Sethi, Senior Director, CRISIL Ratings, "Given the high degree of competition, polyester yarn manufacturers will have to pass on a part of the cost savings to the end-consumers. However, their operating profits should get a 15-20% boost even if they retain half of it. We expect operating profitability will improve to ~11-11.5% in fiscal 2021 (9-9.5% in fiscal 2020). The benefit will be more for large and mid-sized companies, which typically have better bargaining power."

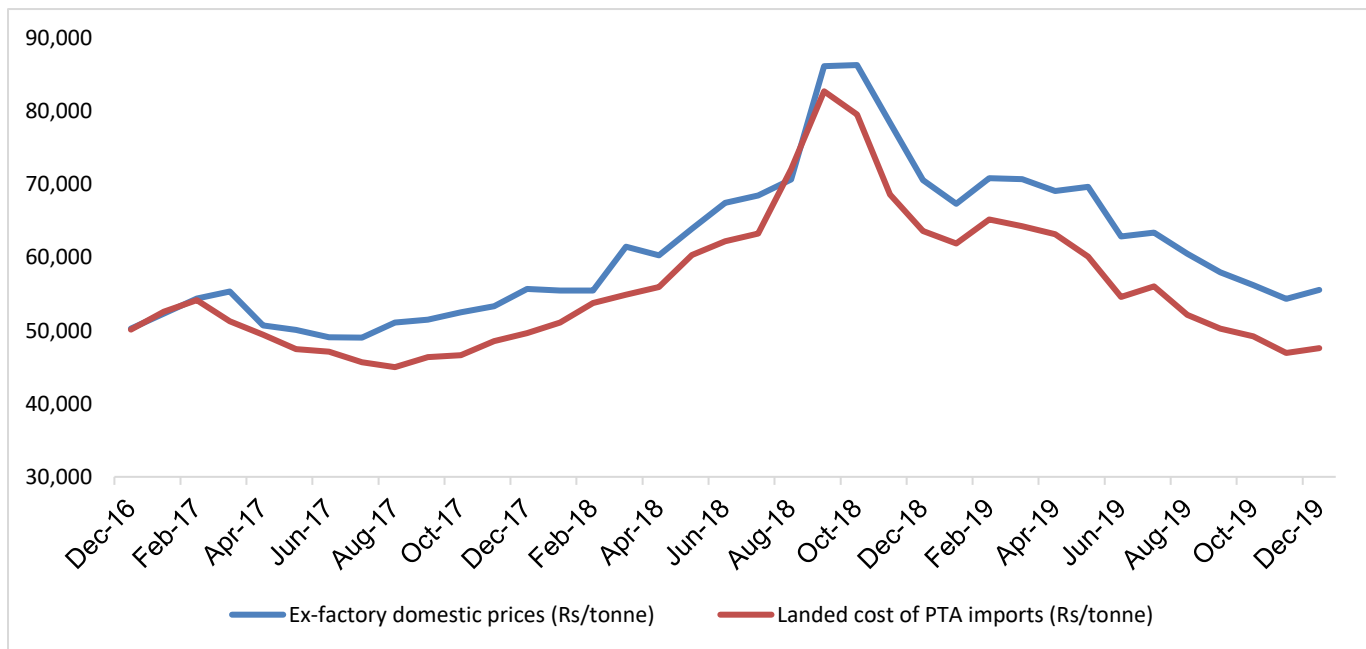
Additionally, there is a headroom for growth as polyester yarn is a cheaper substitute for cotton and other fibres. And though polyester blending in India has increased by 500 bps to 45% in the last three fiscals, it is still lower compared with the global average of 60%.

Meanwhile, the improvement in credit metrics, riding on better operating performance in the last three fiscals, is expected to sustain.

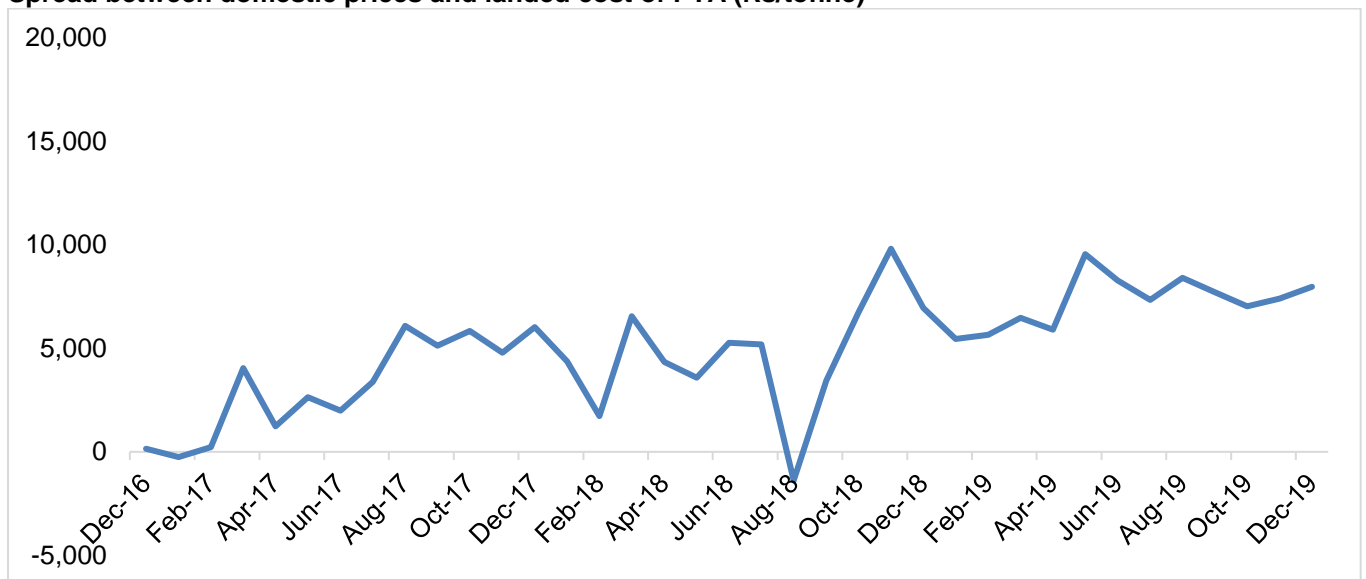
Says Sushant Sarode, Associate Director, CRISIL Ratings, "For polyester yarn manufacturers, interest coverage ratio is expected to improve to 4.3 times in fiscal 2021, compared with 3.4 times in fiscal 2019. With sufficient capacity available, capex intensity is expected to be lower. Better cash generation and progressive debt repayment, will support the improvement in credit metrics."

Annexures

Ex-factory domestic prices vs landed cost of PTA (Rs/ tonne)



Spread between domestic prices and landed cost of PTA (Rs/tonne)



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