



Performance of Q2 – 2010

The apparel exports from India are facing a challenging task. The main reasons are:

- (a) higher cost of wages (26% increase)
- (b) Increase in cotton fabric prices (about 50%)
- (c) Forex volatility (Rupee strengthened by 6% in 6 weeks)
- (d) Low price realizations (pricing pressures)

The total apparel exports of the country for the period April to September, 2010 has decreased by 11% when compared to last year.

The reasons mentioned above have also affected our performance for the Quarter, and we have achieved a top line of Rs.263 Crores against Rs.298 Crores of last year. Sequentially compared, in the previous Quarter we achieved Rs.249 Crores of turnover.

The quarterly wage bill of Rs. 74 Crores of last year has increased to Rs.90 Crores this year. Added to this increase, the higher cotton prices and low export realizations have affected the bottom line badly. For this Quarter, the bottom line stands at Rs. 12 Crores loss at the EBIDTA level and Rs. 27 Crores loss at the PBT level.

The orders executed in this Quarter were badly affected by the rising cotton fiber prices and added to the steep wage increase with effect from April, 2010. We could not pass on the rise in cotton prices to our customers since they were old contracts finalized much earlier.

Even if the flow of orders is now improving, it has not reached the pre-crisis levels seen in 2007. The pre-crisis export orders were happening at higher prices, primarily because the overhang of the macro economic uncertainty was not there. Until economic conditions in both our major markets, viz. US and EU **do not** improve, apparel exports will take some time to reach old levels.

Considering these factors, we are trying to get better prices from our customers. Our order book for Q3 stands at Rs.300 Crores level and for Q4 we had on hand orders for Rs. 200 Crores and booking is still on. We hope to be in the **black** for Q3 and Q4 and shall leave the bad period of Q1 and Q2 behind us.

The strengthening of the Chinese currency and the recent inflation in China is an advantage in India's favour. The future of the Indian cotton prices will definitely influence the apparel export profitability. The Indian cotton crop is expected in November, 2010, and hopefully prices will be under control which in turn will stabilize the cotton fabrics supply chain.