

*Going Beyond Tomorrow...*

# **SPENTEX INDUSTRIES LIMITED**



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# Agenda



- **CLC Group Background**
- Recent Developments
- Turnaround Strategy
- Business
- Spentex At Capital Market
- Financials

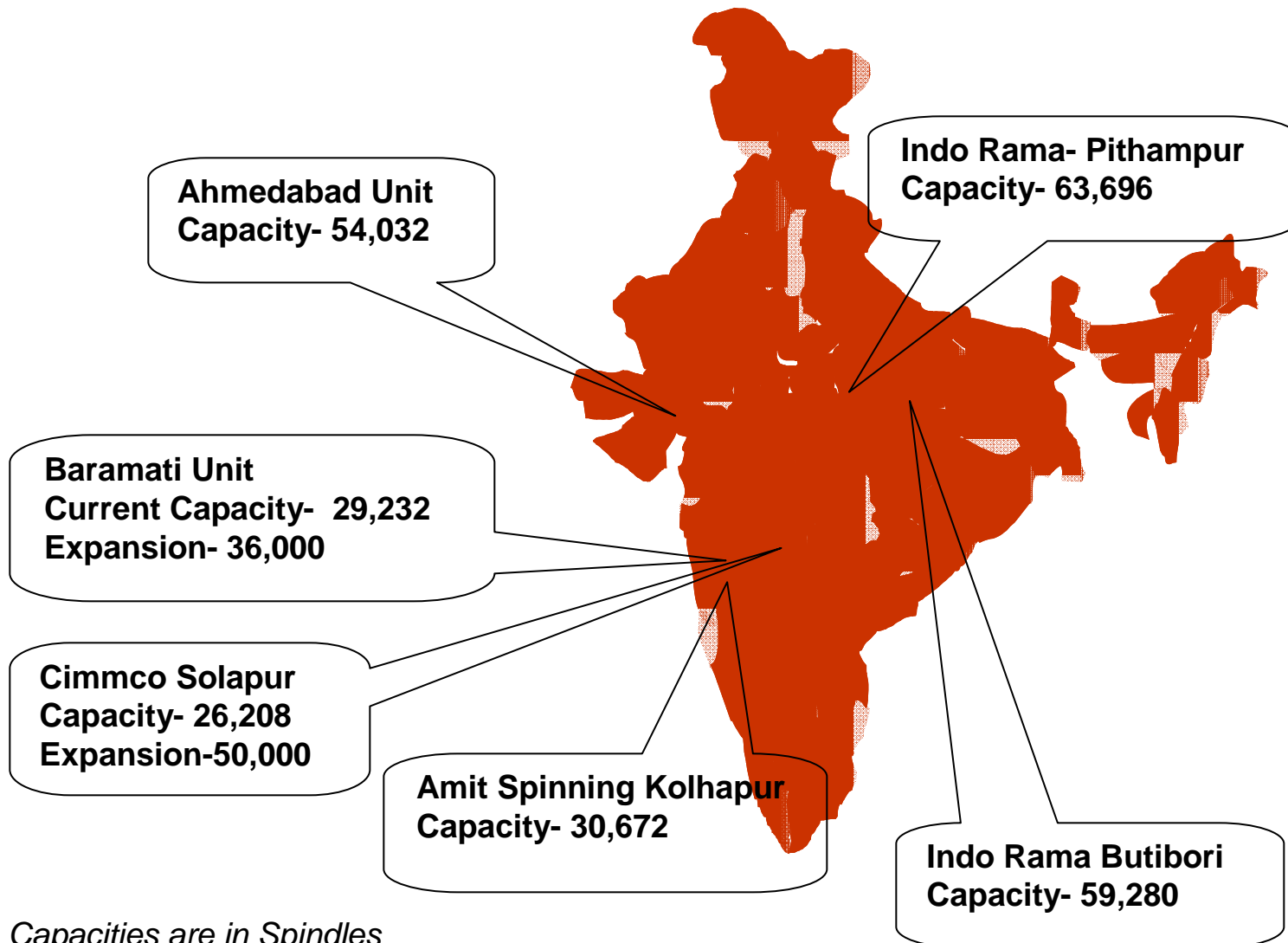
# Spentex Industries Limited



- **Promoted by CLC**
  - Acquired the company from the RPG group in January 2004.
  - Promoters have more than 35 years of experience in textiles
- **Largest spinning company in India**
  - With an installed capacity of about 5.7 lac spindles
  - A 65:35 split between cotton & polyester yarn
- **Venture in manufacturing through acquisition**
  - Acquired Cimmco spinners (Solapur) in Oct 2003
  - Spentex Industries Limited (Baramati) in January 2004
  - Ahmedabad unit in Dec 2005
  - Indorama Textiles Limited in Feb 2006
  - Amit spinning Industries Ltd in May 2006
  - Business of Tashkent Toytepa in Aug 2006
- **Expansion through Organic route**
  - Cimmco (Solapur): 50,000 spindles
  - Spentex (Baramati): 36,000 spindles
- **Turnaround of Performance**
  - Cimmco spinners, Baramati and Amit spinning Kolhapur plants were turned around within 3-5 months
  - Equity investment by Citi Venture Capital of Rs. 703.0 million in Dec, 2005
  - The Ahmedabad unit started production within 4 month of acquisition
  - IRTL increased its EBITDA to 164.3 Million in the first quarter after acquisition as compared to Rs 75.0 Million in corresponding quarter of the previous year
  - Spentex Tashkent clocked EBIDTA of Rs 34.0 Million within 15 days of sales

**Growth primarily through acquisition & demonstrated expertise in turning around acquired units**

# Current Capacities across the Country



*Note: Capacities are in Spindles*

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- CLC Group Background
- **Recent Developments –International presence through Acquisition in Uzbekistan**
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# Uzbekistan – Textile industry



- **5th largest producer of cotton in the world**
  - 2nd largest exporter of cotton with about 80% of production being exported
- **Availability of good quality cotton**
  - Production of 1.2 million tonnes of cotton in 2005
  - Low level of contamination
    - Yield higher by about 8% vis-à-vis Indian cotton
- **Strong government support**
  - Committed to increase FDI in textiles in the country
  - Various incentives for FDI in cotton
- Cotton & related industry constitute 15% of the GDP & about 50% of total exports
- **Various incentives for FDI**
  - Exemption of VAT for exports
  - Exemption of Custom Duty on import of equipment & equipment parts
  - Discount of 15% on cotton fibre for foreign investors
  - Income Tax @ 6% against normal rate of 12% to exporters

**Very favourable environment for 100% export oriented unit in textiles**

# Acquisition in Uzbekistan



## ■ Tashkent Toytepa Limited

1. Installed capacity of 2.2 lacs Spindles, 236 Air jet looms
2. Set up in 1995-1999
  - A. Parent company went Bankrupt- plant taken over by Government
  - B. Tender for sale issued as a part of privatisation programme

## ■ Total acquisition cost at about \$ 103.5 million

1. Bid at \$ 81 million
2. Other costs includes start up cost and working capital of \$ 22.5 million
3. Funding - \$ 27.5 million

## ■ Plant in good condition

1. Machines of reputed make and technology
2. Government running the plant at an average capacity utilization of around 70%
3. Capacity utilization of more than 90% in April 2006 and 97% in May 2006
4. Established linkages for raw materials and sales

## ■ Low Acquisition Cost

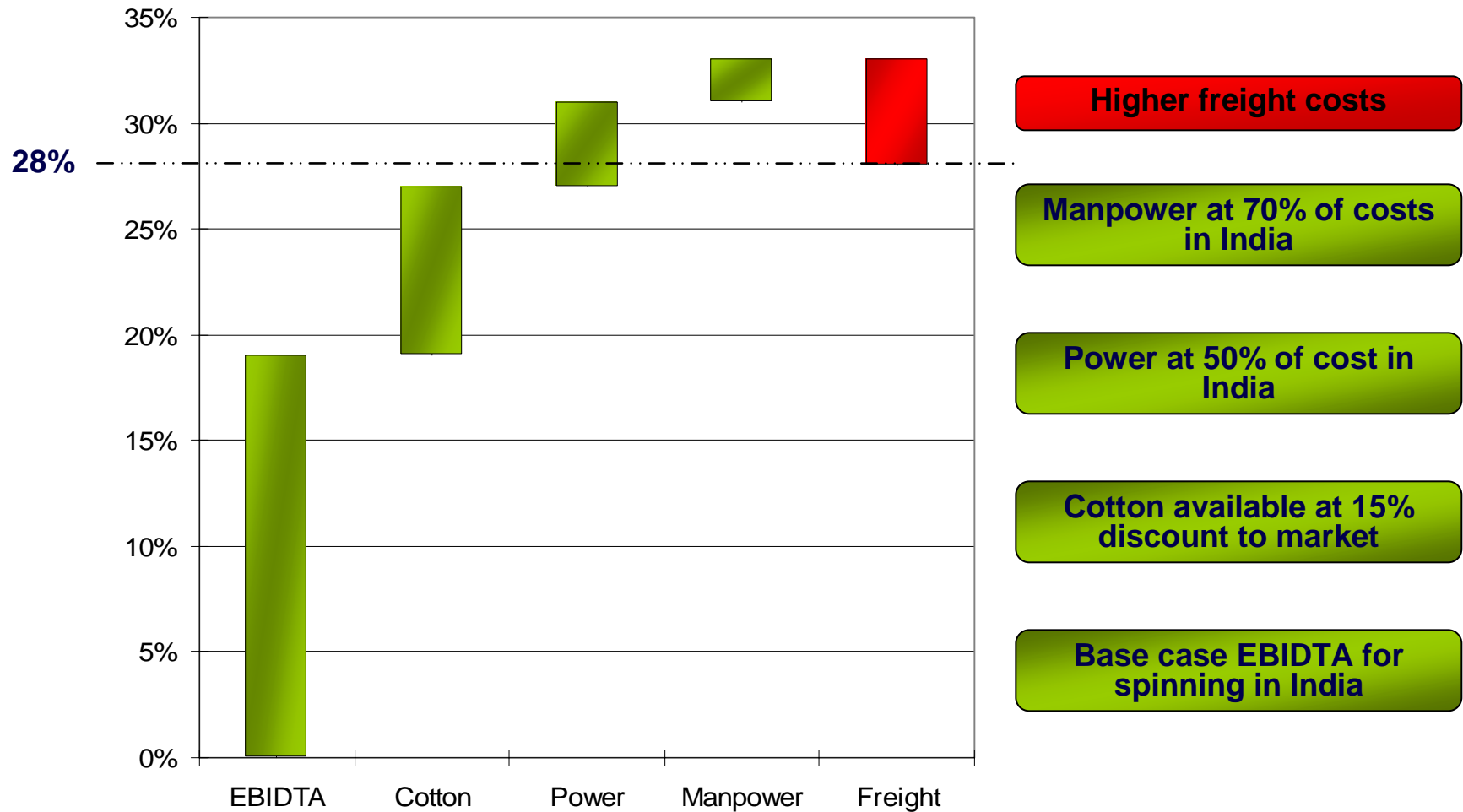
Bid at 40% of the cost of a new comparable plant

- A. At about \$ 70 million (cost on NPV basis)
- B. Cost of a new plant is about \$ 180.0 million (@ Rs. 30000 per spindle and Rs. 6.0 million per loom)

**In line with strategy of acquiring quality, operational, stress assets at low cost**



# Operational advantages in Uzbekistan



**EBIDTA estimated at 28% vis-à-vis 19% in India**

## Our Presence in Uzbekistan



# Capacity at a Glance



## In Spindles

Place	FY 2005	FY 2006	FY 2007
Ahmedabad	-	-*	54,032**
Baramati	29,232	29,232	65,232
Cimmco	26,208	26,208	76,208
Pithampur	-	-	63,696
Butibori	-	-	59,280
Kolhapur	-	-	30,672
Tashkent-Uzbekistan			110,000
Toytepa-Uzbekistan			110,000
<b>Grand Total</b>	<b>55,440</b>	<b>55,440</b>	<b>569,120</b>

\*The capacity will be operational in FY07

\*\* The operational capacity is only 38,304

## Air Jet Looms

Place	FY 2005	FY 2006	FY 2007
Tashkent - Uzbekistan			108
Toytepa - Uzbekistan			128
<b>Grand Total</b>			<b>236</b>

**Rapid Capacity build up through Acquisitions**

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# Turnaround - Management



## ■ Balance score card based monitoring

- Each plant operating as a profit centre
- Executive performance linked to Unit Performance.

## ■ Constant monitoring

- Daily MIS reporting
  - With why-why analysis for any gaps in production
  - Root cause analysis for de-bottlenecking of operational problems
  - Periodic review of operational and financial performance

## ■ Monthly plant visits by Management

- Very high morale of the team with a strong commitment to performance
- Feedback obtained even from grass root level

## ■ International Expansion

- Company has acquired state-owned entity in Uzbekistan to capture high margin export business
- Enhancement in global reach and pace of delivery

CVC has taken 30% stake in the company for about Rs 700.0 million.

# Turnaround- Operational Improvements



## ■ **Product Mix Rationalisation**

- Reduction of average count in Cimmco & Spentex.
- Product range at Cimmco Plant was increased substantially

## ■ **Cost management**

- Centralised Cotton procurement
- Centralised core management group comprising Marketing , Strategy and Finance & Banking

## ■ **Logistics Management**

- Reduction in cargo cost by improving container cargo packing.

## ■ **Value Added People Management**

- Leveraging people capabilities with modern technology
- Enriching people experiences for excellent customer service

## ■ **Building High Performance Work Culture**

- Developing and Managing Talents: Identified & Potential
- Branding Spentex: Attracting, Retaining and Engaging best people through great place to work initiatives
- Developing and Empowering Leadership than Managership
- Reward System: Linking individual contributions with firm performance

# Pre & Post Acquisition Scenario- Key Data



**Cimmco Spinners: 26208 spindles** : Acquired on Oct. 21,2003

- Production increased from 8 MT to 10.5 MT
- Net Sales up from Rs. 39.78 Crores (31.03.2003) to Rs. 65.83 Crores (31.03.2006).
- For the half year 2007 net sales is Rs 35.38Crore
- EBIDTA up from Rs.3.8 Crores (31.03.2004) to Rs.8.2 Crores (31.03.2006)
- Expansion of 50,000 spindles

**Spentex- Baramati: 29232 Spindles** : Acquired on Jan., 5, 2004

- Net Sales up from Rs. 43.15 Crores (31.03.2003) to Rs. 66.14 Crores (31.03.2006)
- EBIDTA up from Rs.(-) 0.88 Crores (31.03.2003) to Rs.(+) 13.2 Crores(31.03.2006)
- Expansion of 36,000 spindles for manufacturing of Value Added Cotton Yarn under TUFs.

**Spentex- Ahmedabad: 54032 Spindles** : Acquired on Dec .31, 2005

- Company has commenced commercial production w.e.f. 2nd May, 2006 and will reach at full capacity in due course.

# Financial Breakthrough of Recently Acquired Company



## INDO RAMA TEXTILES LIMITED

Rs. In Lacs.	Second Quarter		Upto Second Quarter	
Particulars	July05-Sep05	July06-Sep06	Apr 05-Sep05	Apr 06-Sep06
Yarn Sales	8,595	9,615	18,395	18,505
Gross Turnover	8,796	9,843	18,543	18,884
EBDITA	750	1,637	1,778	2,793
Profit before Tax	321	1,024	949	1,475

## AMIT SPINNING INDUSTRIES LIMITED

Rs. In Lacs	Second Quarter		Upto Second Quarter	
Particulars	July05-Sep05	July06-Sep06	Apr 05-Sep05	Apr 06-Sep06
Yarn Sales	916.00	1768.06	1832.49	3091.55
Gross Turnover	1012.00	2045.96	2146.26	3515.43
EBDITA	32.00	328.06	128.98	560.12
Profit before Tax	-255.00	48.01	-476.35	8.25



# Turnaround- Financial Management - Funding by CVCI and Promoters



In December, 2005 Citigroup Venture Capital International Growth Partnership Mauritius Limited and the promoters invested an aggregate sum of Rs 710 Million and 101 million respectively to subscribe and purchase fully paid up equity shares and warrants of the company on a preferential allotment basis. The detail of fully paid up equity shares and warrants are as follows

## Part A

17,500,000 Shares were allotted at a price of Rs. 36.54 per Share to Citigroup Venture Capital International Growth Partnership Mauritius Limited or any of its nominees or affiliates

2,750,000 Shares were allotted at a price of Rs. 36.54 per Share to the promoters

## Part B

17,50,000 Warrants have been allotted to Citigroup Venture Capital International Growth Partnership Mauritius Limited each Warrant convertible at the sole option of the holder any time before the expiry of 18 months from its allotment into one fully paid up share of the Company at an exercise price of Rs. 36.54 per Warrant,

275,000 Warrants were allotted at a price of Rs. 36.54 per Share to the promoters

**CVC has shown full confidence in the company**  
**Exercise warrants into equity shares in a span of 6 months**

## Spentex – First on the QIP Route



- On 21<sup>st</sup> August, 2006 Spentex Industries Limited became the first Company to raise funds through Qualified Institutional Placement (QIP) as per the new guidelines of market regulator Securities and Exchange Board of India (SEBI).
- Spentex has raised Rs.46.59 Crores at Rs.62.13 per share. The shares were placed with Goldman Sachs, Voyager Fund, Nikko Asset Management and Sundaram Mutual Fund.
- The funds raised would be used for company's future expansion projects.

## Loan under Textile Upgradation Fund (TUF) for Expansion of 36000 spindles at Baramati

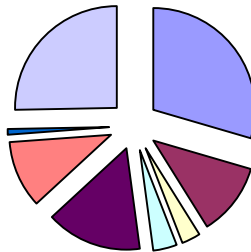
Spentex raised term loan of approx. 90 Crore for a period of 7 years under Textile Upgradation Scheme for expansion of 36000 spindles plant for value added cotton yarn at Baramati

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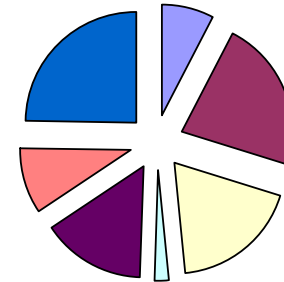
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Distribution of Sales revenue by Count-2004-05



■ 30/1CH    ■ 40/1CH    ■ 30/1CW    ■ 30/1 KW    ■ 40/1CW    ■ 40/2 CW  
■ 32/1KH    ■ Others

Distribution of Sales revenue by Count-2005-06



■ 24/1CH    ■ 30/1CH    ■ 40/1CH    ■ 30/1CW    ■ 40/1CW    ■ 40/1 CWS    ■ Others

- The Company manufactures various counts i.e. in the 20-50 range of cotton
- The company manufactures four types of cotton i.e. CH, CW, KW, KH
- The proportion of sales of various counts depends upon the demand conditions in the market. Based on the demand, the proportion keeps on changing from one year to the other.

# Expanding Product Portfolio



- Indo Rama Textiles Ltd. acquisition helped to broaden the product portfolio
- Added Synthetic/Blended Yarns and Special Yarn to existing cotton yarn portfolio
- Units at Nagpur & Indore to cater to wide range of customers for real time deliveries across the globe

# New product- Value Added Yarn



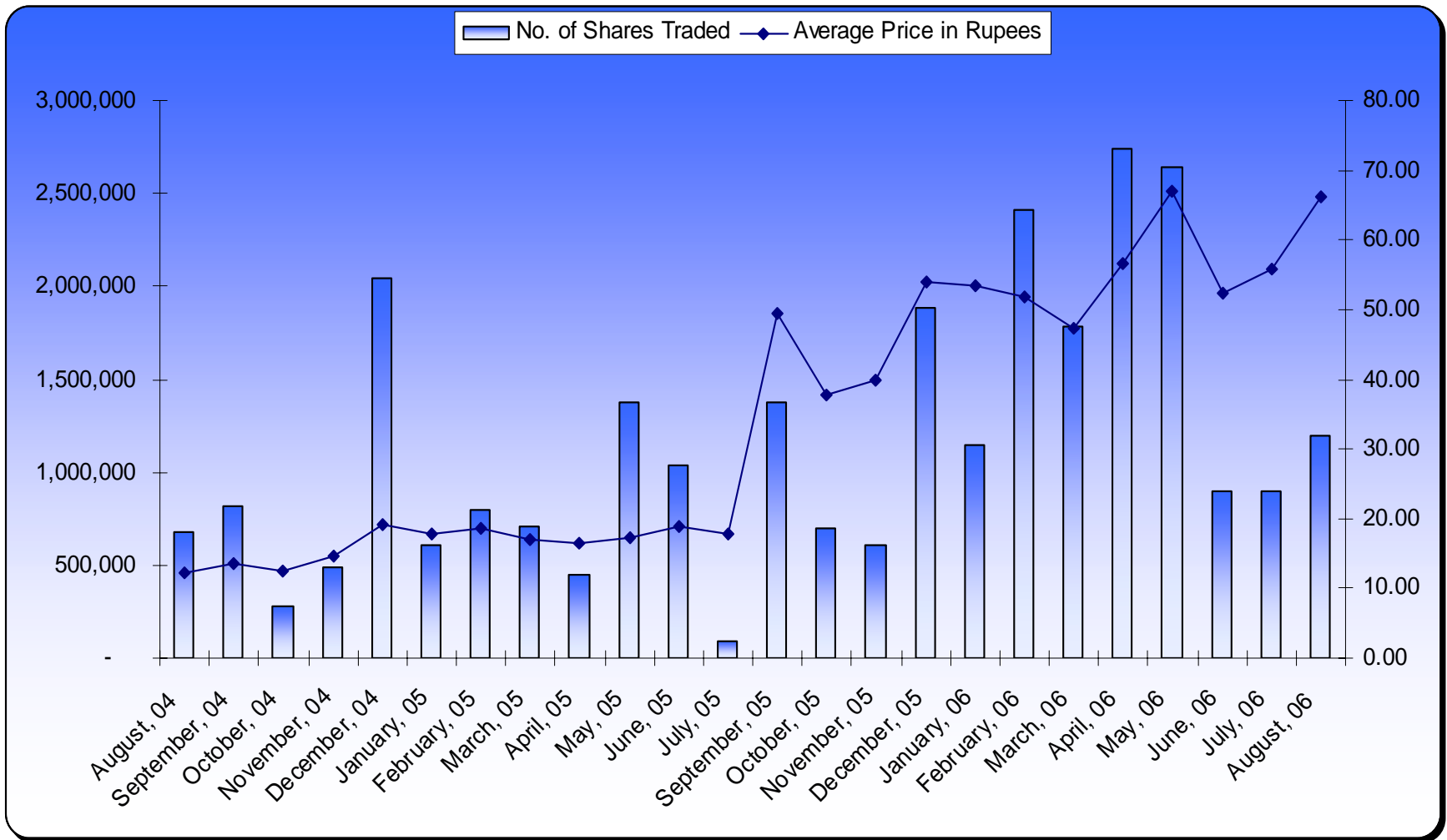
- **Slub Yarn** – These types of yarns are used in premium quality denim and bottom wear fabric manufacturing. These are manufactured by intermittently increasing the diameter of yarn. Use of these yarns gives raining effect to the fabric. There is 20% more value addition in slub yarn over normal yarn.
- **Core Spun Yarn** – There are two types of core spun yarn.
  1. Soft Core Spun: Stretchable filament yarn, called Spandex (Lycra) is used in core and this core is covered with cotton. This type of yarn imparts high stretch ability to fabric. These types of fabrics are used for comfort & ladies wear.
  2. Hard Core Spun: Polyester or Nylon Filament yarn is used in core and this core is covered with cotton. This type of yarn imparts strength to fabric. Normally these fabrics are used for industrial and technical purpose.
  3. There is 25-30% more value addition in core spun yarn in comparison to normal yarn.
- **Compact Yarn** – This type of yarn is latest in high end premium yarns. Cotton, being natural product, has fibers of various lengths. Short length fibers make cotton yarn hairy. This yarn has less than half hairiness in comparison to normal yarn, so fabric made out of Compact Yarn is very smooth, more durable and has no tendency for pilling on washing repeatedly. Value addition in Compact yarn is 25-30% more in comparison to normal yarn.

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# Spentex – At Capital Market





# Shareholding Pattern



	No of Shares	Percentage of Holding
Promoters & PAC (Choudhary's)	30,540,884	45.78%
CVC I Mauritius Ltd.	19,250,000	28.86%
Sundaram BNP Paribas	3,650,000	5.47%
Goldman Sachs Investments ( Mauritius) Ltd.	400,000	0.60%
Nikko Assets Management ( Mauritius) Ltd.	950,000	1.42%
Voyager Fund Mauritius Ltd.	2,500,000	3.75%
Public Holding	9,418,307	14.12%
TOTAL HOLDING	66,709,191	100%

**Demated shares 65,401,404 Aggregating to 98.04%**

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## Spentex Industries Ltd- Consolidated (without Merger of IRTL)



Including subsidiary Indo Rama Textile Ltd wef 24/05/06  
 Amit Spinning Industries Ltd. w.e.f 25/08/06 and Spentex  
 Tashkent Toyetopa LLC wef 21/08/06.

Rs Million	Consolidated Quarter Ended September 30th, 2006	Consolidated Half year ended September 30th, 2006
Net Sales and Other Income	1956.0	3128.6
<b>EBIDT</b>	<b>285.9</b>	<b>397.1</b>
Interest	119.6	180.6
Depreciation	96.7	137.5
<b>Profit Before Tax</b>	<b>66.5</b>	<b>76.0</b>
<b>Net Profit after Tax before minority Interest and share of profit of Associate</b>	<b>30.5</b>	<b>23.4</b>
<b>Net Profit</b>	<b>20.0</b>	<b>8.4</b>

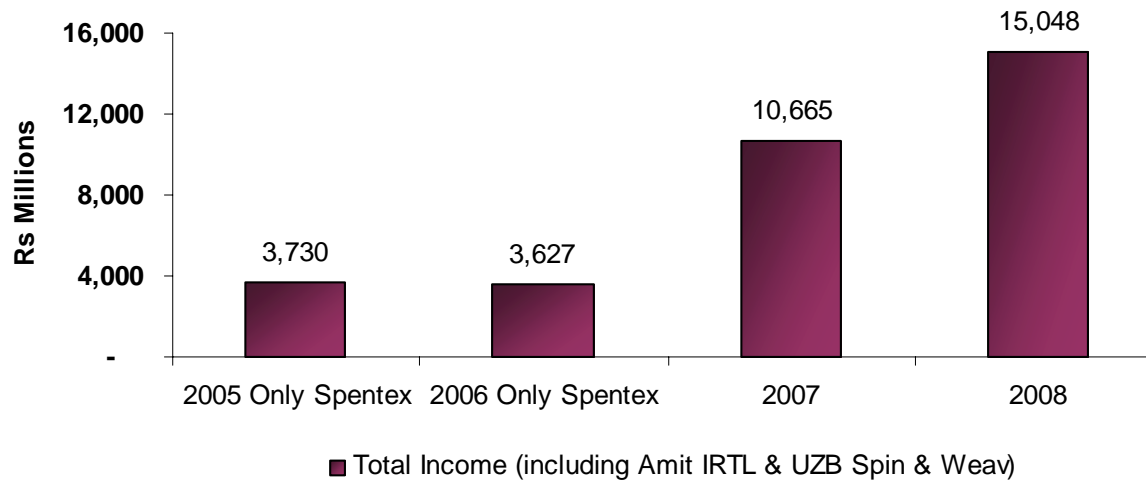
# Spentex Industries Ltd-Consolidated (with Merger)



Including subsidiary Indo Rama Textile Ltd. , Amit Spinning Ind. Ltd and Spentex Tashkent Toyetopa LLC wef 21/08/06.

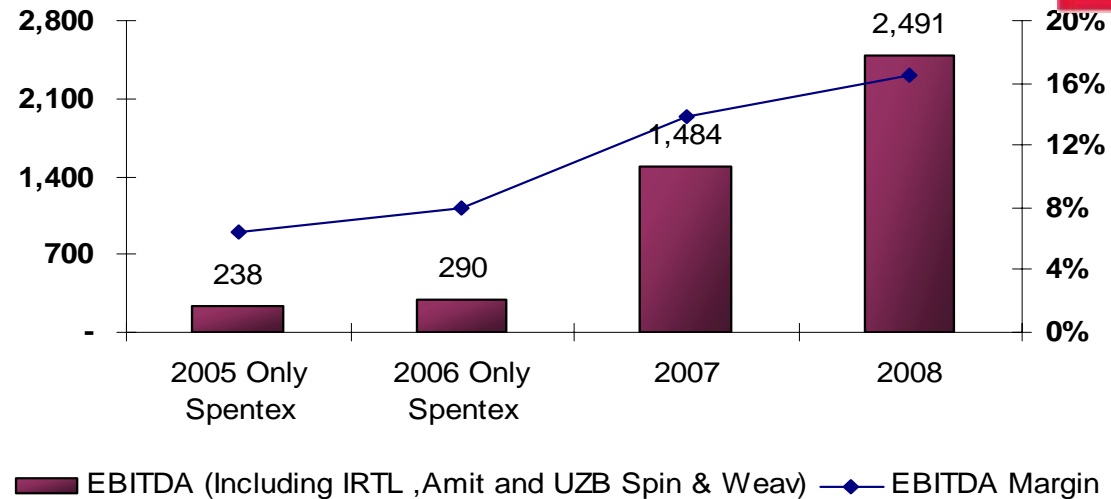
Rs Million	Quarter Ended September 30th, 2006	Upto Quarter Ended September 30th, 2006
Sales and other Income	2077.2	3901.9
EBIDT	301.7	501.0
Interest	126.6	205.1
Depreciation	104.1	167.7
Profit Before Tax	68.0	110.5
Profit after Tax	32.0	58.0

## Financials- Total Income-Rs MN



- We expect rapid growth in total income over the period FY06-FY08. It is expected to grow at a CAGR of more than 100%.
- Income growth will be primarily driven on account of the following
  - ✓ The plant at Ahmedabad was under renovation in FY06. First phase of renovation was complete in May 06 and plant has been operational since then.
  - ✓ The revenues from the plant in Uzbekistan also start kicking in FY07. The full impact on production and sales would come in FY08.
  - ✓ The plant at Baramati i.e. 36000 spindles will start operating from November 06. The full impact on production and sales would come in FY08
  - ✓ Uzbekistan will generate total Income of Rs. 1492 Mn in FY 06-07 and Rs.4033 Mn in FY 07-08 from Spinning Operation. In the year 2008, weaving operation of Uzbekistan will generate the total income of Rs.957 Mn approximately.

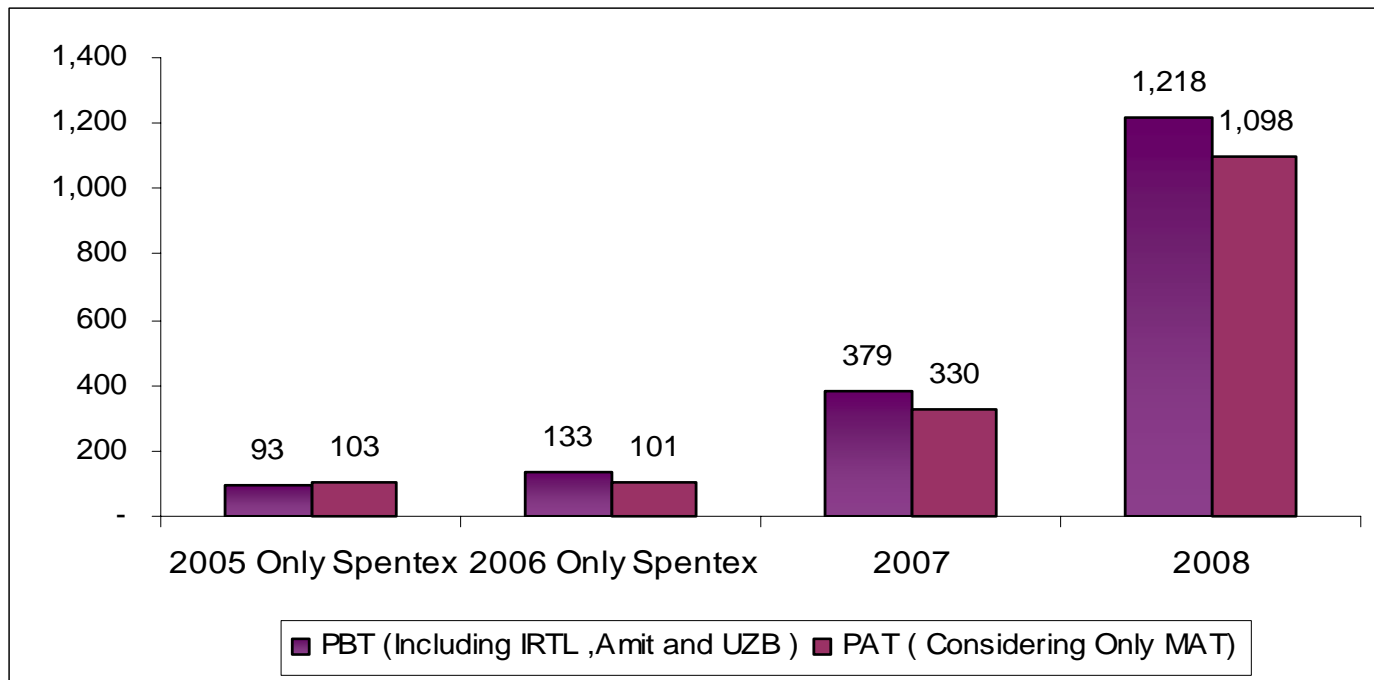
# Financials-Earning Before Interest and Depreciation-Rs MN



## Significant EBITDA growth on account of margin Expansion

- We expect explosive growth in EBITDA over the period FY06-FY08. It is expected to grow at a CAGR of more than 190%.
- EBITDA growth will be primarily driven by margin expansion. EBITDA margin is expected to go up to 16-17% from the current 8%. EBITDA margins are expected to expand primarily on account of the following
  - ✓ The percentage of low margin trading business would come down from 65% of total income in FY06 to 11% in FY07 and 8% in FY08.
  - ✓ The revenues from the plant in Uzbekistan will also start kicking in FY07. The EBITDA margins in Uzbekistan are expected to be in the range of 27-28% on account of cheaper cotton and low power and manpower cost.
  - ✓ The expansion at Baramati i.e. 36000 spindles will manufacture value added yarn. This yarn commands a premium over the normal yarn sold in the market. The margins, as a result, will get a boost
  - ✓ Uzbekistan will generate EBDITA of Rs.302 Mn in FY 06-07 and Rs.1063 Mn in FY 07-08 from Spinning Operation. In the year 2008, weaving operation of Uzbekistan will generate EBDITA of Rs.172 Mn approximately.

# Financials-Profit before and After Tax-Rs MN



- Profit before and after tax, also cover the Goodwill written off, in 10 Year, which will generate from merger of IRTL with Company.
- Profit after tax doesn't include impact of deferred tax, only MAT provision has been considered in the above. Profit before Tax will be increase to 815% as compared to financial year 2005 – 06 and 2007-08
- EPS is Rs.4.62 in 2006-07 and Rs.15.40 in the year 2007-08 without considering deferred tax liability.
- Uzbekistan will generate PBT of Rs. 105. Mn in FY 06-07 and Rs. 834 Mn in FY 07-08. Uzbekistan Company is exempted from Corporate Tax for the next five Years.

# Corporate Governance



- Fostering greater accountability, transparency, responsibility and fairness in all spectrums of business through continual assessment of internal control mechanism vis-à-vis proactive risk management system for upholding ethos of corporate citizenship .
- Pre-emptive risk assessment and mitigation by applying proper internal audit system, hiring best insurance and consultants.
- Dynamic Budgeting system with proper business planning and forecasting.
- Committed to attend best-in-class higher levels disclosures to board and shareholders & society at large.
- Strong desire to execute and comply with all complex and statutory requirements for Corporate Governance including a number of open offer, merger etc with due diligence.
- Adhering to best accounting practices and standards.
- Setting standards of excellence in auditing through top grade audit firms of international repute.



## Our Mantra of Excellence



- Staying ahead of Competition by increasing spindlage to 10 Lacs by 2009
- Sales Turnover to US \$ 1 Billion by 2010

***Going Beyond Tomorrow...***



# Thank You

Presented by:

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