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Moser Baer Q2 of FY '07 Net profit grows 743% y/y: - Back on a growth curve

New Delhi – 27 October 2006

Highlights

Quarter Ended 30 September 2006

- Gross revenue in Q2 of FY '07 at INR 5,248.4 million shows an increase of 31.9% over Q2 of FY '06. In spite of the traditional summer slowdown, gross revenues are up 10.3% sequentially – reflecting buoyancy in the global industry.
- EBITDA at INR 1,454.4 million grew 31.6% over Q2 of FY '06 and 20.4% on a sequential basis, indicating a sharp improvement in operating efficiencies during the quarter, caused by a sharp reduction in costs.
- EBITDA margin (excluding other income) at 26.6 % in Q2 of FY '07 rose over 736 basis points on a sequential basis, driven by improving product mix, firming ASPs and higher efficiencies.
- Profit before tax at INR 263.0 million represents a sharp 190.4% and 292.8% growth over Q2 of FY '06 and Q1 of FY '07 respectively.
- Net profit after tax at INR 259.7 million represents a sharp 742.5% growth over Q2 of FY '06 due to lower tax provisioning. Even on a sequential basis, net profit grew 301.3%, clearly indicating the strength in recovery of operating parameters.
- The company has now established a first mover advantage in HD DVD-R segment and is set to have a unique proprietary technology lead in Blue-Disk format - providing a significant competitive advantage in these next generation formats.

Half Year Ended 30 September 2006

- Gross revenue in 1H of FY '07 at INR 10,004.8 million shows an increase of 31.2% over 1H of FY '06 – driven by capacity, better product mix and improving industry variables. This growth is at the higher end of our revenue guidance range of 25% to 35% growth.
- EBITDA at INR 2,662.8 million grew 36.4% over 1H of FY '06 resulting in an EBITDA margin (excluding other income) of 23.1 % in 1H of FY '07. The EBITDA margin including other income is 26.6% for the period.
- Robust revenue growth & improving EBITDA margins have resulted in a profit after tax of INR 324.4 million against a net loss of INR 80.6 million is 1H of FY'06 – indicating that the operating recovery is well under way.
- This trend of recovery is expected to gain momentum as we enter the traditionally strong winter season and as industry variables remain favorable.

Results at a Glance

(Rs. in million)

S.No.	Particulars	Quarter Ended 30.09.2006 (Reviewed)	Quarter Ended 30.09.2005 (Reviewed)	Year to date figures for the Current Year ended on 30.09.2006 (Reviewed)	Year to date figures for the Previous Year ended on 30.09.2005 (Reviewed)	Previous Accounting Year ended on 31.03.2006 (Audited)
1	Gross Sales	5,248.4	3,978.2	10,004.8	7,623.8	17,319.1
2	Net Sales	5,008.6	3,851.2	9,553.8	7,350.1	16,641.2
3	Other Income	123.9	199.6	459.5	316.9	606.9
	Total Income (2+3)	**5,132.4**	**4,050.9**	**10,013.3**	**7,667.0**	**17,248.1**
4	**Total Expenditure**					
	a. (Increase)/Decrease in stock in trade	(253.1)	(389.8)	(331.8)	(990.6)	(550.1)
	b. Consumption of raw materials, stores etc	2,709.3	2,551.9	5,405.2	5,121.9	10,409.6
	c. Staff cost	349.7	244.3	677.0	491.6	1,035.9
	d. Other expenditure	872.1	539.3	1,600.0	1,092.5	2,216.7
	Total Expenditure	**3,678.0**	**2,945.6**	**7,350.5**	**5,715.4**	**13,112.1**
5	**Profit before interest , Depreciation and Taxes**	1,454.4	1,105.2	2,662.8	1,951.6	4,136.0
6	Interest	300.4	224.5	589.5	450.1	935.5
7	Depreciation	891.1	793.0	1,743.2	1,556.2	3,167.6
8	**Profit/ (Loss) before tax and prior period items(5-6-7)**	**263.0**	**87.8**	**330.2**	**(54.7)**	**32.9**
9	Prior period expenses/ (income) (net)	0.0	(2.8)	0.2	(6.6)	(6.6)
10	**Profit/ (Loss) before tax and after prior period items(8-9)**	**263.0**	**90.5**	**329.9**	**(48.1)**	**39.5**
11	**Provision for tax**					
	- current tax	-	16.6	-	22.8	(6.3)
	- deferred tax (Net)	-	40.9	-	9.8	(14.0)
	- fringe benefit tax	3.3	2.2	5.5	-	13.2
12	**Net Profit after Taxes (10-11)**	**259.7**	**30.8**	**324.4**	**(80.6)**	**46.7**
13	**Paid-up equity share capital** (Face value:Rs.10/- per share)	1,115.1	1,115.1	1,115.1	1,115.1	1,115.1
14	**Reserves excluding revaluation reserves** (as per Balance Sheet of previous accounting year)					18,933.4
15	**Earnings Per Share (Basic & Diluted)** - Rs. (not annualised)	2.3	0.3	2.9	(0.7)	0.4

Notes:

1 Considering the nature of the Company's business, its activities and location of production facilities, the internal financial reporting, element of risks and returns and its predominant product being storage media, there are no business and geographical segments within the meaning of Accounting Standard 17 – Segment Reporting, issued by the Institute of Chartered Accountants of India.

2 There were no outstanding complaints from the shareholders at the beginning of the quarter and all the 13 complaints received from the shareholders during the quarter have been replied to satisfactorily.

3 During the quarter ended 30th September, 2006, the Company has established Peraround Limited as its wholly owned subsidiary company in Cyprus for investment into emerging global opportunities.

4 The above results for the quarter ended September 30, 2006 were reviewed by the Audit Committee and were taken on record by the Board of Directors in their meeting held on October 27, 2006.

For and on behalf of the Board of Directors of
Moser Baer India Limited

Place: New Delhi
Date: October 27, 2006

DEEPAK PURI
Managing Director

REVIEW OF OPERATIONS

Demand and Pricing:

The trend of recovery in industry variables continues, driven by a confluence of factors like - consolidation of capacity, continued growth in consumer demand and softening of prices for key inputs. With the company's improved manufacturing efficiency, growing market share, proprietary technology and "first to market" position in next generation blue lazer based formats; the company is well placed to benefit from this industry turnaround.

The quarter is marked with a number of positives. Optical media shipment volumes continue to be strong. Recovery in CDR demand is now increasingly providing manufacturers the much needed pricing power – CDR ASPs rose sharply during the quarter. DVDR shipments grew 47% y/y and pricing remained firm. Next generation HD DVD-R media started contributing in the quarter in small numbers. Consequently, overall ASPs for optical media business rose 9.8% during 2QFY07. These factors translate into strong revenue growth and the fact that it has happened in a traditionally weak summer season, indicates the buoyancy in the industry. In line with our expectations, the company is well on its way to normal level of operational & financial performance as reflected in a 742.5% rise in PAT to INR 259.7 mn in 2QFY07.

Costs & Margins:

A key highlight of the quarter is the sharp improvement in operating profitability driven by a firm pricing environment and impact of falling prices of PC (poly carbonate). Consequently, EBITDA margin, excluding other income, have expanded sharply by 737 basis points during the quarter to 26.6% (28.3% with other income).

"This quarter has placed the company at the threshold of normal levels of operating and financial parameters. An improving pricing cycle in CDR, robust growth in DVDR and subdued PC cost environment are the key enablers. As we now enter the traditionally strong winter season these positive trends should gain momentum, aided by soft PC prices, helping continued expansion of EBITDA margins in subsequent quarters. " Said Mr Ratul Puri, Executive Director, Moser Baer India Ltd, said.

The company continues to drive extensive cost reduction programs, with a focus on DVD formats, resulting in increasing manufacturing efficiencies. We have been able to research, design and co-develop equipment which improves process yields, enabling us to re-set internal benchmarks for production cost reduction.

Working capital changes

The company's efforts in improving its working capital management have started to yield results. An improving industry environment has provided further momentum to these efforts. The company had set a target of releasing USD 40million of cash from working capital in FY07. In the 1H of FY07 the company has been able to release around USD 10 million of cash from working capital through efficient inventory control and receivables management. The company remains confident of meeting this target.

“Improving operational efficiencies coupled with increasingly efficient & optimal use of assets – both fixed as well as working capital- is another positive trend in our performance. This has resulted in an improved cash cycle and therefore tighter use of cash as interest costs firm up. We continue to progress towards our goal of being free cash positive. ” Mr Yogesh Mathur, Group Chief Financial Officer, Moser Baer India Ltd, said.

Balance Sheet data	Q2of FY ’07	Q1 of FY ’07
Annualized parameters		
Receivable days	79	75
Payable days	93	66
Inventory days	88	83

Future trends

The trend of improving industry conditions should continue into the current year. While CDR/RW pricing should remain firm in the medium term, DVDR/RW prices are expected to continue to follow its cost curve, enabling us to maintain healthy margins in the optical media business. The revenue share of higher margin DVDR/RW and next generation products is expected to further rise to a target of 60% by 4QFY07, thereby improving operating performance. The PC price environment is expected to remain subdued in the near term.

The company continues to strive to move away from the commodity price curve by offering value added products to its customers and also create product niches. The share of value added products is expected to double over the year.

Next generation Formats & Opportunities:

In the quarter under review, the company crossed two major landmarks in the next generation format race. The company became the first player in the world to commence shipments of HD DVD-R (recordable) media to its select global top-tier OEMs customers. Additionally, in a major break through, the company’s proprietary and patented technology has been considered as one of the four standard media to be included in the Blu-ray disc specifications by the Blu-ray Disc Association. The company’s pioneering work in the Low-to-High (L2H) recording technology based on inorganic phase change materials is expected to change the cost dynamics of the format to consumer, thereby providing a significant competitive edge to the company. Having already established a first mover advantage in HD DVD-R format, the company has now extended its technology leadership position in the Blu-ray media as well

According to Ratul Puri, “As per US based Strategic Marketing and Decisions, the demand for the next generation high density formats, including HD DVD and Blu-ray media, is expected at grow sharply to 1.5 billion discs over the next three years. This represents an exciting opportunity for us, as Moser Baer has a first mover advantage and a unique technology & IP position in these next generation blue-lazer based formats.”

The company continues to leverage its core skills in base material engineering, thin film coating, precision sputtering and deep UV mastering technologies. Starting from the current quarter and in conjugation with drive and recorder availability, the company expects to be the first to market in a majority of these next generation formats. The four products which the company expects to have a significant market potential in the future are DVDR Dual Layer, HD DVD-R (recordable) and RW (re-writable), HD DVD Dual layer, and BD-R and RE.

MARKET OUTLOOK

Industry Outlook

Strategic Marketing & Decisions (SMD) estimates global demand for CDR/RW formats to be 13 billion units in 2006, almost static over 2005 level. Consumer demand for the CDR/RW format continues to grow in Asian, Latin American and Middle Eastern markets. There are also certain emerging corporate applications and niche segments like the printable media and LightScribe, which are seeing a rapid growth in the CDR/RW space.

Meanwhile global CDR/RW supply continues to consolidate through capacity conversions and closure of inefficient capacities around the world. This is helping CDR/RW demand-supply balance return to equilibrium, thereby providing a stimulus for firm CDR/RW pricing environment in the medium term. SMD expects shifting consumer preferences, increasing drive penetration and improving price-value proposition to grow the demand for DVDR/RW media to over 6 billion disks per annum in 2006 from 3.9 billion disks in 2005.

Despite the Next Generation format war, SMD believes that it is the blue lazer technology (BD & HD DVD) that has the potential of significantly mitigating the impact of possible cannibalization of optical media demand by emerging alternate technologies in the long term. While SMD expects 2007 to be the first big year for blue lazer based technology, the race has already begun and we should be among the front runners in this next growth phase of the global optical media industry.

Status of Photovoltaic (PV) Cell project.

The silicon based 80 MW project remains on a fast track to achieving commercialization. Over the past couple of quarters Moser Baer Photo Voltaic has made steady progress and the company has also secured part of its short term requirements of raw materials and is progressed towards closing medium to long term strategic sourcing agreements.

During the quarter, the company's wholly owned subsidiary, Moser Baer Photo Voltaic Limited (MBPV), announced strategic investments into Concentration Photovoltaic (CPV) technology companies, namely, Solaria and SolFocus Inc, both based out of USA.

These investments into the first generation silicon as well as non-silicon based photovoltaic concentrator technology form an integral part of MBPV's strategy to develop a sustainable competitive edge and technological leadership in this high growth industry. The solar concentrator technology holds significant potential to expand the global market and applications which today are restricted due to the high cost of silicon based systems with respect to conventional energy.

Ravi Khanna, CEO, Moser Baer Photo Voltaic Limited said, "Our strategy is to clearly straddle multiple future technologies and emerge as an engineering & technology driven company. We believe that these types of innovative technologies have the potential to make PV energy costs comparable to the conventional energy levels – thereby significantly growing the market. We plan to be at the forefront of this emerging technology curve by investing into these technologies and combining them with our technology commercialization and efficient manufacturing capabilities,"

About the Company

Moser Baer, headquartered in New Delhi, India, was established in 1983. The Company has successfully developed cutting edge technologies for recordable optical media, constantly innovating and introducing new products and process. An emphasis on high quality products and services has enabled Moser Baer to emerge as one of India's leading technology companies, with more than an 18% share of the global recordable optical media market. The company currently has over 5,000 full-time employees and has multiple manufacturing facilities in the suburbs of New Delhi, The company services it's customers through 6 marketing offices and subsidiaries/affiliates in India, the US, Europe and Japan.

Disclaimer

Certain statements in this release concerning future growth prospects involve risks and uncertainties, especially those relating to future industry outlook and our ability to manage growth and intense competition within the Industry. Actual market conditions and our performance may differ from our guidance. This estimate is based on current market trends. Among other factors, a sharp and sustained strengthening of the Indian Rupee and a significant weakening in global demand could adversely impact the company's earnings.

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