Sukoharjo, 30 December 2020

Note from the President Director

The COVID-19 pandemic was unexpected and unprecedented and the impact has been felt for almost 10 months in this year of 2020 for everyone. For prudency, we had to make decision early in the year and set up our key priorities:

1. Ensure our employees remain safe and healthy.
2. Ensure our operations run smoothly without any interruptions.
3. Ensure no employee layoff.
4. Assure & maintain all commitments to stakeholders; client/customers, Investors, Bankers, Suppliers.
5. Ensure our financial position remains strong.

We are happy to share that we have been successful in achieving those key priorities despite the difficult situation.

On 23rd December 2020, Moody's took a rating action and revised our rating to B1/Negative from Ba3/Negative. Moody's took the action citing our growing reliance on short-term funding to support working capital and other operational requirements. The outlook remains unchanged at 'Negative' reflecting Moody's concern that we may face challenges to refinance the $350 million ($200 million term loans and $150 million RCF) syndicated loan maturing in January 2022 due to difficult market conditions.

We continue to be the leading Indonesian textile manufacturer, registering a 1.3% 9M y-o-y revenue growth to be at $907 million (September 2020), with a gross profit margin of 18.5%. We have not seen any order cancellations in the 9M September 2020. Our military uniform order has been resilient even under COVID-19 pandemic, going forward we expect to further grow the business as we aim to grow into other markets outside existing business (i.e. Indonesia, Germany, UN). Starting December 2020, we have been able to penetrate the Philippines military uniform market. We expect to improve our margins as our normal product sales, with better margin than PPE products, continues to revive.

Now, we also expect improvement in the working capital days, once our inventory gets converted into sales in Q1 2021 with the revival of economic activity, and as we slowly stop granting the 'extended payment terms' that was granted to few key customers during the pandemic. To give a perspective, compared to September 2020 level, our working capital balance has improved in the month of October and November 2020.

On the liquidity front, our cash holdings as of 30th September 2020, is $159 million and we have access to $240 million of committed bank lines. We were able to maintain the liquidity in our operations despite offering extended period of payments to our customers with the support of our bankers. Although our working capital requirement has overall increased in the year 2020, we are confident that this will be normalised down in the year 2021.

To address Moody's concern on refinancing risk of $350 million syndicated loan due in January 2022, the loan extension process has been initiated on 2nd November 2020. We are confident to be able to roll over this facility by another 2 years by mid-February 2021. The rating outlook is then expected to be revised to 'Stable'.

Sritex has maintained its leverage ratio at 4.3x (Gross Debt / EBITDA LTM Sep 2020), our adjusted Debt / EBITDA is also below Moody's downgrade threshold ratio of 4.5x for Ba3 rating. We expect to bring down the leverage further with EBITDA margin improvement and unwinding of working capital loans. We expect the EBITA/interest expense ratio (Moody's calculation) to inch towards 2.5x, Moody's second trigger point for Ba3 rating, by FY21.

We have successfully been able to maintain the ratings metrics as per Moody's expectation for Ba3 rating all throughout. Our financial covenants, which are tested only in June and December, are also within the threshold level. The September 2020 metrics, though not tested, remain in compliant with threshold for 2020 i.e. Net Debt / EBITDA below 3.75x, Net Debt / Tangible Net Worth below 1.30x, ISCR higher than 2.50x.

We have demonstrated our access to domestic capital markets over the last few months even during COVID-19 pandemic period and managed to obtain several new bilateral facilities in year 2020. Our track record in the international bond markets also gives us an alternative source of funding, and one which we continue to engage with investors regularly this year.

This year has been a challenge and at the same time a testament of our business resiliency, we have learned to effectively capitalise our core strengths and how this has transformed into business opportunities for Sritex.

Looking back, we are happy with the decision made early in this year and how we have successfully achieved all those key priorities. We continue to see positive outlook in the textile and garment industry, noting the rising demand trend for the year 2021 onwards. The textile and garment market has been relatively undersupplied this year given some of the players were forced to close down during the pandemic time, there continues to be demand to be addressed by Sritex.

Moreover we have gained further trust from our customers as we were able to continue our production (running 100% full operations) even during this pandemic period (where majority of players were instead closed). We expanded our footprint and enlarged our customer base during this period which would help us to grow our business in the long term.

The introduction of Sritex's PPE products this year received an overwhelming demand from consumers; Sritex has become a household name in Indonesia. We plan to capitalise on the trust shown by end consumers in the coming years.

As we are wrapping up the year 2020, we would like to use this opportunity to convey our heartfelt gratitude to our Investors, Bankers, Customers, Suppliers, Government departments and all other stakeholders for their overwhelming support and trust throughout this year. It was not an easy one, but through collaborative efforts, we managed to limit the economic negative effects that resulted from unwanted COVID-19 pandemic.

Wishing a joyful and prosperous year 2021, stay safe and healthy!

Best Regards,

Iwan Setiawan Lukminto

President Director