"Ganesh Polytex Limited Conference Call"

February 04, 2011

MODERATORS: **MR. GANESH HADVALE**
MR. SHYAM SHARMA
MR. SHARAD SHARMA.
MR. GOPAL AGARWAL

Moderator: Ladies and gentlemen, good day and welcome to the Ganesh Polytex Limited Q3 FY'11 earnings conference call hosted by Unicon Financial Intermediaries Private Limited. As a reminder for the duration of this conference, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions at the end of the today's presentation. Should you need assistance during the conference call please signal an operator by pressing "*" and then "0" on your touchtone telephone. Please note that this conference is being recorded. At this time, I would now like to hand the conference over to Mr. Ganesh Hadvale from Unicon Financial Intermediaries Private Limited. Thank you and over to you Sir.

Ganesh Hadvale: Thank you. Good evening to all of you and thank you for joining us today on behalf of Unicon Financial Intermediaries Private Limited, we welcome all of you for Q3 FY'11 earning call of Ganesh Polytex Limited. Before we begin I would like to say that some of the statements made in this call maybe forward-looking in nature. We have with us Mr. Shyam Sharma, Chairman and Managing Director of Ganesh Polytex Limited, Mr. Sharad Sharma, he is Joint Managing Director of the Ganesh Polytex Limited and Mr. Gopal Agarwal, he is the Chief Financial Officer of the company. Without taking much time, I hand it over to Mr. Sharma for opening his remarks. Over to you Sir.

Shyam Sharma: Good evening ladies and gentlemen. On behalf of Ganesh Polytex Limited I wish you all a very happy New Year and extend a warm welcome to Ganesh Polytex Limited Q3 conference call. At this juncture, it is a matter of great pride and honor to inform that our company, Ganesh Polytex Limited has been awarded with the coveted silver shield by the Institute of Chartered Accountants of India for Excellence in financial reporting for the year 2009-2010 under the category, manufacturing sector - turnover less than Rs.500 Crores. Now I would like to acquaint you of our latest business updates.

During the previous quarter we had announced a successful commissioning of the 3rd production line of 18000 TPA at our Rudrapur unit, which was fully operational during the December quarter. Then the company continued to register operational and financial progress by focusing on consolidation and optimization of returns from the investment made during last year.

We are pleased to inform that IFCI Venture Capital Funds Limited has provided letter of intent for subscribing 15 millions optionally convertible debentures of Rs.90/- each of the company on the preferential basis, convertible into equal number of equity share for Rs.10 each of the company at a premium of Rs.80 per share.

IFCI Venture Capital will be making the said investment through its Green India Venture Fund which has a corpus of 330 Crores for investing in companies engaged in clean development mechanism and reducing the negative ecological impact. Ganesh Polytex Limited being a waste recycling company has been recognized as eligible for funding under Green India Venture Fund. The proposed investment is impacted towards the company's growth plans.

Now I will request to Mr. Gopal Agarwal to brief you regarding the Q3 financial performance of the company.

Gopal Agarwal: Thank you and welcome all of you. Now let me take you through our broad financial numbers for the quarter ending December 31, 2010. During the quarter the company recorded sales of Rs 81.6 Crores and thus registered a growth of more than 55% on year-on-year basis.

The EBITDA for the quarter stood at to Rs. 10 Crore as against Rs. 6.2 Crores in the corresponding quarter of last year. The net profit of the company has reflected a healthy growth at 76% on year-on-year basis and translating into a basis EPS of Rs. 3.65 for the quarter ended December 31, 2010.

Now I would also like to highlight that during this quarter Kanpur unit of the company was subjected to excise duty. Ganesh Polytex Limited and other waste recycling companies were earlier not liable to pay excise duty on the recycled polyester fiber due to a court order. On June 29, 2010 Central Board of Excise & Custom issued administrative instructions contrary to the judicial decision, to levy the excise duty on the recycled polyester fiber. These instructions were legally challenged, thus the jurisdictional commission rates in most part of the country did not enforce these instructions and therefore most of the waste recycling units are not paying excise duty. However our jurisdictional commission rate, in over enthusiasm, ignored the law of uniformity and forced us to pay that excise duty. We are seeking legal remedy and are hopeful that the remedy will be available to us shortly.

As a repercussion of the highlighted facts, our profits marginally impacted during the quarter, which we are confident to make up in coming quarters.

With that I would like to through this call open for question and answer session.

Moderator: Thank you. Ladies and gentlemen we will now begin with the question and answer session. We have our first question from the line of Rabindra Basu from CRISIL Equities**.** Please go ahead.

Rabindra Basu: The PSF prices have increased during the last quarter or so how is this affecting the companies per unit realization. Are we able to benefit from it?

Gopal Agarwal: The PSF prices are on increasing trend world over, and that increase is particularly for the spinning grade fiber, our price is also increasing but not to that pace, one reason is that we are having two to three months order book and so during this quarter most of our supply were at old rates. Further apart from making spinning grade fiber we are catering to other segments like stuffing and non-woven textile, market dynamics of these segments are different from the spun yarn segment and so it is not possible to make price increase for these sectors in tandem with textile segment.

Rabindra Basu: Okay but on certain things are you able to renegotiate prices as you said you already have your order book so is there a clause where in spun yarn or in the textile segment you could even renegotiate the price or that flexibility is not there?

Shyam Sharma: No the negotiation is not advisable for our company. Any commitment made under a contract, we have to fulfill it.

Rabindra Basu: Okay and another thing I would like to get an understanding on the excise so how do you propose to mitigate this effect in the coming quarters as you said it is affecting this quarters EBITDA. So how do you plan to tackle this issue in the coming quarters?

Shyam Sharma: Basically the excise duty is going to make an impact on everybody. This will not impact us more, but it will be beneficial for us because of our Rudrapur unit, which is exempt from the excise duty for 10 years.

Rabindra Basu: Okay, thanks a lot Sir.

Moderator: Thank you. The next question is from the line of Minal Dedhia from Networth Securities. Please go ahead.

Minal Dedhia What is the revenue break-up for POY and PSF in this quarter?

Gopal Agarwal: 15% revenue is coming from the yarn segment 85% from PSF segment.

Minal Dedhia: Okay and after the expansion what are you looking after revenue mix as?

Gopal Agarwal: We are looking at the same ratio going forward.

Minal Dedhia: The same ratio, okay and I also want to breakup on the production, how much of POY was produced this quarter and also PSF?

Gopal Agarwal: Actually we are not making the POY we are making the dyed yarn.

Minal Dedhia: The dyed yarn. Sorry.

Gopal Agarwal: During this quarter we produced about 680 tonnes dyed yarn and at about 10,700-tonnes of polyester fiber.

Minal Dedhia: What is the status of the expansion that you are planning for the POY segment?

Gopal Agarwal: We are planning to expand the capacity of pet waste recycling.

Minal Dedhia: Also you were planning to get in a POY plant in place soon right?

Gopal Agarwal: That plant is on hold just now.

Minal Dedhia: Okay on hold right now. Okay fine. Thank you.

Moderator: Thank you. The next question is from the line of Pramod Bhat from Bonanza Portfolio. Please go ahead.

Pramod Bhat: You said that earlier the difference between PSF and recycled material is it still at about 15% or is it higher now?

Gopal Agarwal: That different is higher now, it is because we are catering to so many segments and not only to textile segment. The prices of spinning grade fiber have increased but not of other segments, so overall the difference has increased.

Pramod Bhat: What is it approximately currently?

Gopal Agarwal: The difference is currently about 20%-25%.

Pramod Bhat: Going ahead do you expect to book at a higher rate or would you be able to or you would have to still prioritize a bigger discount or the current discount?

Shyam Sharma: It depends on market situation, which is going to change, and we cannot give any real picture but it is expected that prices will increase to some extent.

Pramod Bhat: What is the current order book like?

Shyam Sharma: We having around one month advance booking.

Pramod Bhat: One month booking? Sir the funds which you are raising from IFCI, when do you expect to get them in?

Shyam Sharma: We are spending for the forward integration as well as the renovation of our existing plant.

Pramod Bhat: When do you expect to get the money?

Shyam Sharma: In March. We expect to get the money in March.

Pramod Bhat: In March you will be getting the money and one question is that you had a last time you had indicated a debt of approximately 72 Crores to be precise, is the current state of debt almost the same as on September you have indicated that to be around of 70-73 Crores?

Gopal Agarwal: Are you talking about the borrowing book?

Pramod Bhat: Loan book?

Gopal Agarwal: We are having about Rs. 67 Crores loan book.

Pramod Bhat: As of December and cash and bank balance?

Gopal Agarwal: Cash and bank balance is about Rs. 4.0 Crores.

Pramod Bhat: During this quarter the EBITDA margin reduced of almost 100 points as compared to the previous quarter almost 80 basis point and as compared to June more than 150 basis point. This is only because of the excise or is it because of the raw materials?

Shyam Sharma: Both impacts are there. Excise duty is having some impact and raw material has also impacted as during winter collection as well as consumption both gets reduce.

Pramod Bhat: Okay so on the logistic front you expect to resolve some of these things or some these problems might continue for sometime?

Shyam Sharma: Balancing in better way in a long term.

Pramod Bhat: Okay and when crude prices are likely to remain firm does it affect your pricing and your ability to push price increases?

Shyam Sharma: Higher crude prices are going to give some benefit to us.

Pramod Bhat: Okay. I will come back with some further followup questions at a later time. Thank you.

Moderator: Thank you. The next question is from the line of Umesh Patil from Wallfort Financial Services**.** Please go ahead.

Umesh Patil: Couple of question from my side; Power fuel which has increased substantially during the quarter what is the precise reason for sharp increase and what would be company's strategy to address the increase in such cost to maintain the margins?

Gopal Agarwal: Increase in wage bill is relative to the growth in turnover. Over last one-year, wage cost is increasing steeply in every industry due to social welfare scheme of our government and also a very high level of inflation. To address the increasing wage cost, we are going for more automation and mechanization of our processes. As regards to power and fuel cost, major increase is due to increase in production capacity and some increase is there because of rise in power rates and increase in fuel prices. Increase in these expenses is being addressed by consolidation of operations as well as increasing the operational efficiencies and adding value added products. We are also modernizing our old plant to save on the operational cost.

Umesh Patil: Second question is related to interest liability as the company has managed its interest liability very well and the interest expenses has reduced drastically in the first nine months compared to the corresponding years of 2010, even during Q3 interest expense has increased marginally despite the addition of substantial new capacity, so how did you achieve this?

Gopal Agarwal: Company is striving for a judicious mix of foreign currency loan and rupee loans in its overall borrowings to lower the interest cost as well as to optimize the exchange risk. This strategy yield a good result and overall borrowing cost has come down within 10%, because of 13% earlier. Further there are some schedule repayment quarterly repayment of term loans which also contributed to the lower interest cost.

Umesh Patil: So what is the average cost of debt as of date?

Gopal Agarwal: It is about 10%.

Umesh Patil: How much cash balance do you have at the current level?

Gopal Agarwal: Company is having about Rs. 4 Crores cash and bank balance.

Moderator: Thank you. The next question is from the line of Nisha Manjari from Taurus Portfolio Management. Please go ahead.

Nisha Manjari: My question is on your 124 Crores Greenfield CapEx plan; could you give me a breakup of funding in terms of equity and all?

Gopal Agarwal: We are looking for mix of equity and debt. Apart from that internal accrual will also be there to fund that CapEx plan.

Nisha Manjari: Can I get an exact ratio?

Gopal Agarwal: It is about 50% to 55% debt and balance from equity and internal accruals.

Nisha Manjari: How much has already been arranged?

Gopal Agarwal: Some funds have been arranged from IFCI Venture Capital, and we are also in the process of arranging the balance funds.

Nisha Manjari: I had read in a report a couple of days back that the company is consistently trying to change the perception of the market towards it being a textile company to a waste management company and I think the investment of IFCI venture fund is one step towards it apart from that what is the progress on that front?

Gopal Agarwal: Basically IFCI funding is a major milestone in change of perception about the company and we are also looking for going ahead with other recycling opportunities like recycling of other plastic waste, so this will also give mileage in that direction.

Nisha Manjari: Is there any other formality also in terms of changing the industry classification?

Gopal Agarwal: In fact Mumbai Stock Exchange is not having any classification for this waste recycling company, so they are putting us into a textile company. Now they have transferred to other classification, but that is also not exactly representing company's area of operation.

Nisha Manjari: Any development expected in the near future?

Gopal Agarwal: In what regards?

Nisha Manjari: In terms of change in perception order or a change in industry classification?

Gopal Agarwal: We are constantly trying to let the people know that what we are doing, what we are into, so I think this process will take time, but eventually we will get succeed our perception building exercise.

Nisha Manjari: Your Company is also eligible for carbon credit?

Gopal Agarwal: We think so, because we are recycling the pet waste and this plastic waste is a threat to the environment in terms of land fill and incineration. Virgin pet and plastic are derivatives of fossil fuel, i.e. crude oil, which generates a lot of carbon emission during processing. So by recycling the waste we are reducing the new quantity of the fresh material, and so we are reducing the carbon emission. This process, in our opinion, is therefore eligible for carbon credit.

Nisha Manjari: Can we expect some increment in PAT point II carbon credit this year?

Gopal Agarwal: It is a long-term process, but we are trying and we are hopeful to get the carbon credit.

Nisha Manjari: Last question, could you give me the average realization of PSF and dyed yarn for nine months?

Gopal Agarwal: For nine months the average realization for yarn is about Rs.146 and for fiber side it is Rs.70.

Nisha Manjari: What is the expectation for the full year, will this be maintained or some increment?

Shyam Sharma:: Some improvement will be there.

Nisha Manjari: To the extent of?

Shyam Sharma: Now it is marginally affecting at 2% to 3%.

Nisha Manjari: That is all from my side. Thank you.

Moderator: Thank you. The next question is from the line of Shaileja Sharma from AXIS Mutual Fund. Please go ahead.

Shaileja Sharma: I just wanted to know you just told us that IFCI venture would be giving the funds from its main venture funds. I think this fund is specifically for environmental friendly company, so could you let us know how are you eco-friendly. Could you just throw some light on that?

Gopal Agarwal: We are recycling the PET bottle waste, which are otherwise harmful for the environment as these are generally find place in landfills and incineration. By recycling the PET waste we are making the environment more friendly for people to live in. The objective of green venture fund is to promote the activities which have positive environmental impact. So we are eligible for that Green India Venture Funds investment.

Shaileja Sharma: Another question is what are the end usages of your product and the scalability of this?

Gopal Agarwal: There are different uses of our products. PSF is used for spinning of yarn in the textile industry, it is also used for stuffing in soft toys, pillows, mattress, and furniture, it is also used for non-woven and technical textiles, like medical textiles, geotextiles, sports textiles, diapers, wipes.

Shaileja Sharma: Thanks a lot. That is all from me.

Moderator: Thank you. The next question is from the line of Shailesh Kumar from KR Choksey. Please go ahead.

Shailesh Kumar: I just wanted to know the breakup of your debt? How much is rupee denominated debt and how much is forex related debt? What is the repayment schedule?

Gopal Agarwal: Out of the total loan book of 67 Crores, about 25 Crores is in foreign currency. Rest is in rupees.

Shailesh Kumar: And what is the cost of this dollar debt?

Gopal Agarwal: Dollar debt cost is around 5%-6%.

Shailesh Kumar: 5%-6% so in terms of LIBOR plus how much it does cost?

Gopal Agarwal: LIBOR plus 2%-3%.

Shailesh Kumar: Rest is the hedging cost.

Gopal Agarwal: Yes.

Shailesh Kumar: Fine. Sir repayment schedule?

Gopal Agarwal: Repayment, the term loans are about to be repaid over the next three years.

Shaileja Kumar: Sir, you are also going for CapEx do you think you would be able to manage your cash flows- 125 Crores CapEx?

Gopal Agarwal: We are having sufficient cash accruals and the accruals are going to increase substantially with increase in capacity and after the completion of our expansion program. So, we will be able to manage that.

Shailesh Kumar: Sir which are the banks or financial institutions which have promised you support or given you approval for loans?

Gopal Agarwal: The process is going on, it is not completed yet and most probably we will take the financial support from our existing bankers only.

Shailesh Kumar: Okay fine thank you.

Moderator: Thank you the next question is from the line of Pramod Bhat from Bonanza Portfolio. Please go ahead.

Pramod Bhat: Sir if I understand correctly you will be repaying 42 Crores over the next three years right?

Gopal Agarwal: No we are having 30 Crores from loan as of now. So we will be paying roughly 10 Crores annually.

Pramod Bhat: You said 67 Crores?

Gopal Agarwal: 67 Crores is the total borrowing book which includes working capital borrowings as well as term loan borrowings.

Pramod Bhat: Would it be correct to assume that these would be rolled over because you also have another 60 Crores of debt for the CapEx plan which will be coming up?

Gopal Agarwal: No the loan payment will be made as per schedule and the new term loans will be tied-up for these expansion plans.

Pramod Bhat: Out of these 30 Crores how much approximately repayable in FY'11 up to March?

Gopal Agarwal: Only one quarter is left and that is about 2.5 Crores.

Pramod Bhat: Sir also wanted to check if I estimate that approximately 55% will be debt in the 125 Crores project**.** Roughly 60-65 Crores you will be raising by fresh debt is I am correct in assuming that.

Gopal Agarwal: Yes.

Pramod Bhat: This will also have mix of foreign and local or you will be going only for local

Gopal Agarwal: Yes it is a mix of foreign and local.

Pramod Bhat: Current mix whatever you are having.

Gopal Agarwal: It is about say 50%-50%.

Pramod Bhat: That also gives about 35-36 Crores, which you will be putting in either by equity or by some further funds other than IFCI venture is that correct?

Gopal Agarwal: We are looking for about equity of 30-35 Crores which includes funding from IFCI Venture Capital.

Pramod Bhat: Okay but that would still leave gap that you will make up from internal accruals?

Gopal Agarwal: Yes

Pramod Bhat: Okay and how much of this money has so far has been spent you not spent much if I am correct assuming?

Gopal Agarwal: We have taken over the land for the expansion project and we have also put some order for machinery

Pramod Bhat: In terms of actual expenditure so how much approximately?

Gopal Agarwal: It is not much is about 6-7 Crores

Pramod Bhat: 6-7 Crores and this total expenditure will happen by FY'12?

Gopal Agarwal: Yes by FY'12.

Pramod Bhat: In the entire FY'12 this expenditure will happen?

Gopal Agarwal: Yes.

Pramod Bhat: What is the three-month average for yarn and fiber selling price in the current quarter?

Gopal Agarwal: Current quarter yarn is about Rs. 152. Fiber is about Rs. 70.

Pramod Bhat: Okay and in terms of your production output how much was it in the year before and in the September quarter in terms of output?

Gopal Agarwal: In terms of output for nine-month period if you take we are operating at about 72% capacity.

Pramod Bhat: 72%, no what I wanted was you mentioned that PSF production for the quarter was 10,700 tonnes and for yarn it was 680 tonnes for the quarter for corresponding quarter last year?

Gopal Agarwal: Corresponding quarter last year it was 370 MT for yarn and 7300 MT for fiber.

Pramod Bhat: And for the September quarter if you have it?

Gopal Agarwal: September quarter it is 700 MT for yarn and 7080 MT for fibers.

Pramod Bhat: That completes the question I have**.** Thank you very much and congratulations.

Moderator: Thank you. The next question is from the line of Pankhuri Shah from KBS capital. Please go ahead.

Pankhuri Shah: There is no entry barrier in terms of capital intention for technology of PET waste so how do you intend maintain your leadership position?

Gopal Agarwal: With our long experience in the industry, we feel that we have some certain entry barrier. We are a large player in the industry and we are working further to maintain the leadership position in future also. We have developed a strong network for collection of waste and further planning to expand that network. This is another entry barrier. We have developed a vast range of products over the period of time meant for wide range of applications across the different industries. Product development is ongoing process in our company and we are confident that with our focus on constant research and product development. We would be the front runner in the industry. We have also developed over a period of time a satisfied customer network across the globe based on excellent quantity, trust, reliability, consistency and best customer services and mutual relationship. In our view these are benchmark which can be perceived as entry barrier.

Pankhuri Shah: Okay. Thank you.

Moderator: Thank you. The next question is from the line of Rakesh Chandra from Master Trust. Please go ahead.

Rakesh Chandra: *"Sir, jaisa ki aap promoter ki second generation se hain tho mein jaanna chahtha hun ki company in theen saalon mein aapka kya vision hai?"* ("Sir, since you come from the second generation of the promoters, I would like to know that for the next three years, what is your vision?)

Sharad Sharma: **"***Basically the company is into recycling of pet waste main toh lagi huin hain, aur recycle continuously badati jah rahi hain, aur agar plastic waste ke baare main soch rahein hain, saath saal sei value additions chain ke baare main soch rahein hain to uske hisab sein company ke agey ke teen saal ke liye to position achi lag rahin hain, growth opportunity bahut badiaya hain."* ("Basically the company is into recycling process which is increasing and we are also thinking about the other plastic waste recycling, as well as value added products through consolidation and forward integration. Taking that into consideration, the company is going to be in good position for the next three years. Growth opportunity is excellent.")

Rakesh Chandra: *"Yeh plastic waste joh apne bateyaen toh plastic products kaun se products ke liye aap sochein hain"* (The other plastic waste that you mentioned, what products do you have in mind?)

Sharad Sharma: "*Other plastic products main jaise PVC hain, PP hain, aur other plastics joh bi, LD, LDPP hain, un sab cheezon ke bare main soch rahein hain." (*"In other plastic products there is PVC, PP, and other plastic like LD, LDPP we are thinking about these.)

Rakesh Chandra: **"***Dhanyawad."* ("Thank you.")

Moderator: Thank you. The next question is from the line of Umesh Gupta from Reliance Wealth Management. Please go ahead.

Umesh Gupta: Hi just one question on this excise duty. What is the rate at which it will be applicable if at all and what is the total amount for which the claim is and have you provided anything on that account?

Gopal Agarwal: It is 10.3% and we have provided for Kanpur unit. It is not applicable on Rudrapur unit.

Umesh Gupta: No you provided for what amount for this financial year revenue or it would have been from some retrospectively effect having for last few years?

Gopal Agarwal: We have provided it from July 2010 quarter. Circular was issued on 29th June and provision has been made from that date.

Umesh Gupta: So you have provided in this quarter result or where have you provided for that amount?

Gopal Agarwal: Major amount has been provided in this quarter result. Some amount was provided in last quarter also.

Umesh Gupta: How much is the amount so far for the current financial year, which you have provided in this quarter.

Gopal Agarwal: 1 Crore for this quarter and 1.25 Crores for the last quarter, September quarter.

Umesh Gupta: So, this 2-odd point Crores you have provided in the current quarter.

Gopal Agarwal: Yes.

Umesh Gupta: So, till the time, there is no favorable judgment you will continue to provide that on a quarterly basis right?

Gopal Agarwal: So far we are providing.

Umesh Gupta: Thank you.

Moderator: Thank you. The next question is from the line of Jignesh Vaidya from Sun Capital. Please go ahead.

Jignesh Vaidya: Sir, couple of questions on your raw material expenses front. This year it has increased to around 76 million, so around 67% of sales, is it because of the increase in your raw material expenses?

Shyam Sharma: Certainly. During last few months, every cost has increased sharply. Transport cost has increased. Wage cost has increased. Further, during winter season picking of bottles is problem, supply is short, and consumption is short. So the cost has increased.

Jignesh Vaidya: The other was on the other expenses; it has declined from around 827 million to 792 million, so it is around 8% of total sales?

Gopal Agarwal: That is because our sales has increased and the capacity has increased, but expenditure has not increased in tandem with the sales, so that is our operational efficiency.

Jignesh Vaidya: Was there any one off item last year?

Gopal Agarwal: No, except the job charges, there was no other charges.

Jignesh Vaidya: Sir, as discussed in your last concall, what is the update on Bilaspur, when would you start production there if your financial closure happens may be next quarter?

Gopal Agarwal: It will take around one quarter and a year.

Jignesh Vaidya: One year.

Gopal Agarwal: It will take around 15 months time.

Jignesh Vaidya: One question on your new capacity. Out of the 18,000 tonnes that you have put up last quarter, so what is the capacity utilization there?

Gopal Agarwal: The present capacity utilization is about 75%.

Jignesh Vaidya: Okay, in the new capacity that you have put up.

Gopal Agarwal: Taken together all the capacity.

Jignesh Vaidya: Thank you Sir.

Moderator: The next question is from the line of RN Gupta from an Individual Investor. Please go ahead.

RN Gupta: How much stake are you giving to IFCI now? You are issuing letter of intent 15 lakhs warrants, so, how much percentage will it be of your total capital?

Gopal Agarwal: It is about 8% on fully diluted equity capital.

RN Gupta: When you are like to receive these funds.

Gopal Agarwal: For these funds, we have called up the extraordinary general meeting of the members next month and after holding the EGM, we will allot debenture to IFCI and we hope that we will get the funds in March only.

RN Gupta: How will we utilize these funds?

Gopal Agarwal: These funds will be utilized for ongoing expansion program of the company.

RN Gupta: There will be an expansion of the capacity?

Gopal Agarwal: Yes.

RN Gupta: When we can expect the conversion of these warrants in to equity?

Gopal Agarwal: It will be convertible into equity shares at the option of the IFCI within 18 months.

RN Gupta: Within 18 months, this means by September 2012.

Gopal Agarwal: Till September 2012 the option will be there with IFCI.

RN Gupta: Thank you.

Moderator: Thank you. The next question is from the line of Abhinav Mansinghka an Individual Investor. Please go ahead.

Abhinav M: I just wanted to understand on your raw material side. If you could broadly explain how prices have moved on a per kg basis, for the course of three to four years and if you could just give me a sense of whether there is any correlation to any product prices or they are largely sticky and may be you can throw how you procure…?

Shyam Sharma: It is part of the market demand & supply. And there is a major collection cost involved, transport cost involved, so raw material cost are increasing.

Abhinav M: Sir, on a per kg basis, if you would give me sense as to how the prices have moved over the course of the last three to four years broadly?

Shyam Sharma: Broadly in last three to four years the raw material prices have moved by about 25%-30%.

Abhinav M: Annually is it?

Shyam Sharma: Annually.

Abhinav M: How have end product prices moved in the same period?

Shyam Sharma: The end quarter prices are more or less going on the same ratio.

Abhinav M: More or less going on the same ratio, so is it that basically the prices are low…

Shyam Sharma: Higher or lower it goes on, but it is a market demand and supply factor.

Abhinav M: On your capacity utilization you mentioned that you are currently operating at 75% what is an optimum capacity utilization. Can you move to 100?

Shyam Sharma: We are making different varieties, different colours, and different variations so our captive utilization is about 75%. Installed capacity is based on standardize single product. But as we are making so many varieties, utilization is lower. We can achieve 90% even. We are trying to increase the capacity so that frequent change on machinery is reduced and we can achieve higher capacity utilization.

Abhinav M: If you could be give me just bit a sense of 125 CapEx how is it broken up it terms up various product lines and various facility?

Shyam Sharma: It will be around 50% for renovation and expansion of the existing capacity and 50% for forward integrations.

Abhinav M: So how will the capacities increase, if you could put it tonnage terms.

Shyam Sharma: Around 12000 tonnes per year capacity will be increase of recycling and for yarn spinning capacity it is in spindles, it is not in metric tonnes, it depends on the count basically capacity it could be varying.

Abhinav M: What would be the revenue potential of this expansion, so if let say 125 Crores of expansion at a peak utilization what would be the revenue potential of this expansion?

Gopal Agarwal: We are looking for a revenue of about 125-150 Crores out of this expansion.

Abhinav M: So it is roughly one time effect is that a fair understanding? One-time effect of yarn is a fair benchmark to you, 125 Crores is what you are spending and 125-150 Crores is?

Gopal Agarwal: Yes, one time.

Abhinav M: Thank you.

Moderator: The next question is from the line of Amit Kumar Tiwari from Escorts Mutual Fund. Please go ahead.

Amit Kumar Tiwari: Firstly you have already talked about high inflation and all that because today the Prime Minister also basically discussed the thing because the high inflation is actually putting a problem to the development and all that, so what my question is that in the present scenario the interest rate are hardening and borrowings are becoming costlier as you know going forward how is the company going to manage interest cost which maybe increased substantially in Q4 quarter and basically I think 67 Crores is the total borrowing of the company I think, is it?

Gopal Agarwal: The total borrowing position is 67 Crores as of now. The interest rates are increasing due to RBI measures to control the inflation. Our interest expense will also be increasing due to interest rate hike, but we do not foresee any major impact in this cost as our increased cash generation will reduce our borrowing book. For further borrowing for our expansion plans, we shall tie up for new loans at most competitive rates and further generation from these expansions, will take care of that. So interest rate hike will not have any major impact

Amit Kumar Tiwari: Actually you have already told that around 10% is the cost of debt which the company has taken?

Gopal Agarwal: It is about 10%.

Amit Kumar Tiwari: It is a floating rate of interest or fixed rate interest or what kind of the basically rate of interest have we already taken?

Gopal Agarwal: Mostly it is of floating rate.

Amit Kumar Tiwari: What is the top line target for 2012 March going forward for the next one-year?

Sharad Sharma: Looking for about 30% increase.

Amit Kumar Tiwari: 30% increase from the current level having and down the line three years, that is in the year 2014 actually what would be topline of the company?

Gopal Agarwal: We are growing at about 30% since the last four five years. We foresee that kind of growth in future also, so we cannot tell you the exact number of what we are looking for but roughly the same kind of growth in future also for the next three to four years.

Amit Kumar Tiwari: But roughly actually we are actually moving ahead with 30% of CAGR which we could assume that for the next three years down the line?

Gopal Agarwal: We are trying for that 30% CAGR in future also.

Amit Kumar Tiwari: Okay thanks a lot. That is all from my side.

Moderator: Thank you. The next question is from the line of Vishal Mehta from Claris Capital. Please go ahead.

Vishal Mehta: I just wanted to get your current capacity breakup by product?

Gopal Agarwal: You want to know that installed capacity?

Vishal Mehta: Your current capacity by product in between fiber and between yarn?

Gopal Agarwal: Our current capacity is 57,600 tonnes for fiber and 2400 tonnes for yarn.

Vishal Mehta: Now I believe that the CapEx plan is for about 125 Crores right?

Gopal Agarwal: Right.

Vishal Mehta: After this CapEx is done where would our capacity stand for these two products and are we adding any other products to this?

Shyam Sharma: We are looking for about 12000 tonne increase in pet recycling capacity.

Vishal Mehta: In the fiber recycle 12000.

Shyam Sharma: We are looking for about 12,000 tonne increase in pet waste recycling capacity. We are also going for putting this yarn spinning capacity for forward integration.

Vishal Mehta: That would take our yarn spinning to what level for forward integration?

Shyam Sharma: Turnover will not increase much from yarn spinning but margins will improve.

Vishal Mehta: So on the fiber part of the recycling fiber, out of this 125 Crores how much would be spending on this 12000 Crores capacity expansion?

Shyam Sharma: About 50% is for fiber recycling capacity as well as modernization and about 50% for this yarn spinning capacity.

Vishal Mehta: This yarn capacity is different from the yarn capacity that we have right now?

Shyam Sharma:: That is different that would be spun yarn; our fiber manufactured will be used for that purpose for fabric making.

Vishal Mehta: After your capacity expansion you run over about 70, 000 tonnes of fiber capacity?

Shyam Sharma: Around that level.

Vishal Mehta: How much are you expecting to use internally out of this?

Shyam Sharma: Around 10%.

Vishal Mehta: So the new yarn capacity will end up using only about 10% of this?

Shyam Sharma: Yes. About 10% of our fibre capacity.

Vishal Mehta: What kind of revenue can this 125 Crores of CapEx generate for us?

Gopal Agarwal: It is around 125 Crores.

Vishal Mehta: You would expect EBITDA margin a bit higher than what you have right now after that CapEx?

Shyam Sharma:: We are looking for the increase in EBITDA margin, around 17%-18%.

Vishal Mehta: Thank you.

Moderator: Thank you. The next question us from the line of Yatin Mehta from Economic Times. Please go ahead.

Yatin Mehta: You are going for a big expansion plan going forward, is there any problem in procuring raw material or are you fully integrated with your raw material requirement?

Shyam Sharma: Raw material sourcing may be tough as more competitors may increase the demand. But we are having a different system of collection so we will be having cushion of that.

Yatin Mehta: You have a board resolution passed for raising 25 Crores, you already raised I think 13-14 Crores from IFCI, so what will be the next route of getting the fund will there be some other equity route or will you again go for private equity round?

Shyam Sharma: We have not decided still. Rs. 9 Crores we shall raise by converting outstanding warrants and 13.5 Crores we are going to get from IFCI. And for balance we have different options for that, and it will be decided shortly.

Yatin Mehta: Are you going to new regions because I think some metro because the kind of input that your require would be available more in the metro cities, so are you planning to get some plants located near some metro because?

Shyam Sharma: We are not planning for metros but we are planning to have our project in the other cities, states of the southern region of the country because we have our network of the marketing as well as the procurement there.

Yatin Mehta: Last question from my side, what is you raw material cost as a percentage of the finished product, what is your total input cost versus your selling price?

Shyam Sharma: The total input cost is about 62-63%

Yatin Mehta: Including energy cost and processing cost?

Shyam Sharma: I am telling only the raw material cost.

Yatin Mehta: So your energy cost and processing cost will be different from that you will realize Rs.70 and Rs.140 as you said?

Gopal Agarwal: No that is the finished product prices.

Yatin Mehta: That is kind of finished product. That is what I am telling. Thank you so much.

Moderator: Thank you. The next question is from the line of Sachin Sharma an Individual Consultant. Please go ahead.

Sachin Sharma: My question is regarding the carbon credit one is that has the company appointed some consultant for the same?

Shyam Sharma: We are in the process of appointing right consultant for carbon credit, As per our information so far only one company in Canada in plastic recycling got the permission**.** So we are trying for getting the information and then we will be able to finalize the path. We have good possibility, but we are not 100% clear about the process.

Sachin Sharma: Any benchmark number on what kind of income you can generate through this carbon credit route?

Gopal Agarwal: Actually we do not know about the numbers, but roughly for one time recycling of PET bottle waste, we are saving 1.5 tonnes carbon dioxide emission, so looking to that number at our present capacity and present rate of CSR it translates into the roughly 9-10 Crores at our present capacity.

Sachin Sharma: This is based on your present capacity**.** Okay, fine thank you Sir.

Moderator: Thank you. The next question is from the line of Ashish Chugh from Hidden Gems**.** Please go ahead.

Ashish Chugh: My question is with regards to the capital expenditure plan, which the company is currently undertaking**.** Can you tell me how much capacity is being added at what location and I believe 12,000 tonnes per annum is the total capacity addition, which is going to happen, so is it all happening at your current location or is it a new location, which you have selected for capacity expansion?

Gopal Agarwal: At least about 50% capacity will be added to our existing location and 50% in new location.

Ashish Chugh: So, have you finalized the new location?

Gopal Agarwal: Yes**.** We have finalized the location.

Ashish Chugh: Where exactly is this new capacity going to be set up?

Gopal Agarwal: It is at Bilaspur, about 7 km away from Rudrapur plant. Bilaspur is in UP.

Ashish Chugh: So, this is again excise free and tax free zone?

Gopal Agarwal: No**.** It is not excise free and tax free zone. In fact all the excise free and tax free zones have now been taken off except this northeast area of the country.

Ashish Chugh: When is the capacity expansion expected to be completed?

Gopal Agarwal: It will take about 15 month's time.

Ashish Chugh: 15 months time**.** So middle of say FY'11-12?

Gopal Agarwal: No end of FY'11-12.

Ashish Chugh: End of FY'11-12**.** Till now you have been growing organically, have you also pounded over the idea of may be making an acquisition or growing through the inorganic route?

Gopal Agarwal: We are looking for every opportunity, which apart from having synchronization with our existing business provide us for expansion of business and capacity**.** So apart from expanding our business organically, we are also looking for suitable inorganic opportunities in recycling business.

Ashish Chugh: Okay and these inorganic capacities would be for PSF or higher value added product?

Gopal Agarwal: It may be for PSF or may be for higher value items.

Ashish Chugh: Thank you**.** That is all from my side.

Moderator: Thank you. The next question is from the line of N Mohan from Master Capital. Please go ahead.

N Mohan: What is your raw material, in coming years if there is such a shortage of raw material how would you overcome such shortages in the near future?

Gopal Agarwal: For procurement of pet bottle waste we have developed network of collection centers**.** Most of the material is sourced through this network to meet the collection more efficient; we are working on to tie up with some big consumers**.** So this will provide us a significant edge**.**

Shyam Sharma: Also we are going to increase other collection centers in the other parts of the country, so it will increase our strength.

N Mohan: Can you tell me that from where the maximum source of your raw materials comes from north, east or west?

Gopal Agarwal: From all over India but mainly in the north and eastern belt of the country.

N Mohan: Okay**.** Sir in your chairman speech you have mentioned about using all kinds of plastics along with pet bottles, but still not using, can you say any serious reason or have you postponed that idea?

Shyam Sharma: Yes, we are working on that front and we are hopeful that we shall be able to finalize shortly some plans in that area.

N Mohan: Thank you Sir.

Moderator: Thank you. The next question is from the line of Anil Sharma from ABN India. Please go ahead.

Anil Sharma: In the last concall you said that you have a franchise system to collect the pet bottle waste. Kindly elaborate on what is this and is your future plan? You told you are making more centers and how will you go to collect on grass route level?

Gopal Agarwal: We are having collection center for collecting pet bottle waste from rag pickers. These collection centers are running on franchised models. We are also going to add further collection center to strengthen our collection system.

Anil Sharma: How will you collect this from grass route; you said that you are collecting from consumers only?

Gopal Agarwal: Actually our collection centers work like this. There are number of rag picker, these rag pickers collects the waste and provide it our collection center, there waste is segregated, sorted and it is compressed for transporting to our plant.

Anil Sharma: Okay thanks.

Moderator: As we have no further questions, I would like to hand the floor back to Mr. Ganesh Hadvale for closing comments. Please go ahead sir.

Ganesh Hadvale: I would like to thank all participants and especially the management of Ganesh Polytex Limited for taking time out to attend this conference call. Thank you and have a nice day ahead.

Gopal Agarwal: Thanks to all of you for participating in this conference call. We really appreciate your valuable time and the queries raised by you.

Moderator: Thank you gentlemen of the management. Thank you Mr. Hadvale. Ladies and gentlemen, on behalf of Unicon Financial Intermediaries Pvt Ltd that concludes this conference call. Thank you for joining us. You may disconnect your lines.