



“Ganesh Polytex Limited Earnings Conference Call”

August 17, 2011



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Moderator Ladies and gentlemen good day and welcome to the Ganesh Polytex Limited Q1 FY12 Results conference call. As a reminder for the duration of this conference all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this 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 like to hand the conference over to Ms. Shweta Sinha. Thank you and over to you ma'am.

Sweta Sinha Good evening to all of you and thank you for joining us today on behalf of Bonanza Portfolio Limited. We welcome all of you for Q1FY12 conference call of Ganesh Polytex Limited. Before we begin I would like to say that some of the statements made in this con call describing the company's objectives, projections, estimates, and expectations may be forward looking statements within the meaning of applicable securities laws and regulations. Actual results could differ materially from those expressed or implied. We have with us in the call today Mr. Shyam Sundar Sharma, CMD, Mr. Gopal Agarwal, CFO, Mr. Sharad Sharma, JMD and Mr. Bharat Kumar Sajnani, Company Secretary. I would now like to hand over the call to Mr. Shyam Sundar Sharma, CMD. Over to you sir.



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S. S. Sharma

Thank you. Good afternoon ladies and gentleman and thank you for joining us in this call to discuss GPL's Q1 FY 12 financial results.

I will quickly go through the financial results for Q1 FY12 where I would cover the key developments and financial highlights for the period under review after which we will be happy to discuss any questions that you may have in more detail.

During this quarter, Company recorded a net turnover of Rs. 84.46 crore, which is 77% higher in comparison to turnover of Rs. 47.52 crore during corresponding last quarter. The sale is however; lower by 20% on quarter to quarter basis due to fall in sale prices across the board. Earnings before interest, depreciation and tax have stood to Rs. 10.52 crore, which is an increase of 65% over Q1FY11. Profit after tax, at Rs. 4.98 crore, is higher by 75%. Our exports are constantly scaling up year after year and during Q1 quarter, we achieved highest ever quarterly export turnover of Rs. 23.91 crore, which is 28% of the total turnover and is higher by 245% on year-on-year basis.

This quarter has been quite challenging amidst the falling cotton prices, which dropped by more than 40% from their peak level and it took a toll over the prices of virgin as well as recycled polyester fibre, which also crashed drastically. The sharp fall in prices hit the demand badly, which



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otherwise also remains soft during first two quarters of the financial year. Unprecedented fall in the prices of natural as well as manmade fibres coupled with subdued demand restricted our volume growth and the quarter ended with a average capacity utilization of 65% as against the 73% average capacity utilization during corresponding last quarter.

However, a diversified product portfolio coupled with increased capacity insulated the company's margins against any sharp down fall. The current environment presents a host of challenges. High levels of inflation coupled with high interest regime and increasing costs of inputs and services would test the growth in current quarter.

We believe that with increasing awareness, environment protection would be in centre stage of people's focus and so the recycling, being the only solution to conserve the scarce natural resources, would be supported by all the sections of the society. We being the forerunner in the industry, has all set to capitalize on the future growth opportunities in our industry and are going ahead with our plans to expand the capacity as well as to move forward into value chain.

Before opening the call to questions, I would like to thank the entire GPL organization for their hard work and



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dedication, and our shareholders for their continued support. I would also like to thank you all for your patient listening.

This was a brief update from our end. I would now request the moderator to take it into a Q&A session. And we would be pleased to answer any questions raised by you all. Thanking you.

Moderator Thank you, we will now begin the question and answer session. The first question is from the line of Nisha Manjari from Taurus Asset Management, please go ahead.

Nisha Manjari Yeah, sir my question is regarding top-line. What is the reason for a 20% fall in top-line Q-on-Q?

Gopal Agarwal During the first two quarters of the year demand remains always slack. In June quarter because of the steep fall in cotton prices, the prices of polyester has also dropped substantially. Because of unusual fall in prices, consumer industry remained on sideline, which affected the demand badly. Pause in demand affected our volumes and so the top-line growth was about 20% lower than the March quarter.

Nisha Manjari Okay and may I know the current debt position?

Gopal Agarwal The current borrowing is Rs. 72 crores.

Nisha Manjari And out of this how much is long-term?



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- Gopal Agarwal** Around Rs. 36 crores is long-term and the remaining Rs. 36 crore is short-term borrowings.
- Nisha Manjari** Okay, so keeping in view the rising interest rate regime, has the company taken any steps towards hedging against rising interest rate regime?
- Gopal Agarwal** Interest rates are moving up since last two quarters. We were having some foreign currency loans major part of which got matured during the quarter and converted into rupee loans. This would be having some bearing on our interest costs during the 2nd quarter. We are working on reducing our inventory and receivables level and making more efficient use of working capital to check the rising interest costs. We are also working with our bankers to convert part of the working capital loans into foreign currency loans. Scheduled repayments of term loans will also be helpful to address the issue.
- Nisha Manjari** Okay, so going ahead do you expect any more pressure because of rising interest on margins?
- Gopal Agarwal** Yeah, interest cost is rising and so far there are signals that it will rise further. So it will certainly put some pressure on the margins. But we are trying to manage our working capital to keep the interest cost under check.



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Nisha Manjari Okay, I mean to what extent can we expect margins to be hit? Because according to you, the next quarter is also a low demand quarter and added to that interest rates are expected to rise so how much pressure are you expecting on margins?

Gopal Agarwal We expect to maintain the performance which we have achieved in the June quarter in spite of the increase in interest cost.

Nisha Manjari Okay, fine thank you, that's from my side.

Moderator Thank you, the next question is from the line of Rakesh Kumar from RC Investment, please go ahead.

Rakesh Kumar Sir your industry seems to be in low entry barrier industry, so what are the major entry barriers for others?

Gopal Agarwal Certainly the industry is not a very capital intensive industry so the entry barriers are low. But over the period of time we have created our own barriers, we have created large capacities, we have developed a very wide range of products, we have developed a number of applications for our products, as well as we have also developed a network of customers, so these are the barriers which are difficult to cross in by the newcomers.

Rakesh Kumar Okay thank you.



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Moderator Thank you. The next question is from the line of Suranjoy Singh from Frontiers Investments, please go ahead.

Suranjoy Singh Actually my question is regarding the zero coupon optionally convertible debentures of Rs. 90. I want to know when is this year's warrant due for convergence. This is my first question. Second is that, although the net sales is down if you compare it on quarter-to-quarter basis still the consumption of raw material, employee cost, and power is up. If you compare it on a percentage wise on the net sales? I want to know why all these raw materials' prices have gone up? Will this trend continue going ahead?

Gopal Agarwal Mr. Suranjoy, Optionally Convertible Debentures are due for conversion during September, 2012.

Suranjoy Singh 2012?

Gopal Agarwal And as I discussed there are drop in demand during this quarter which is unusual because of the drop in cotton prices and polyester prices and so our capacity utilization is lower by about 10% in comparison to March quarter, so fixed elements of every cost has increased in comparison to March quarter because of the lower production base.

Suranjoy Singh But your consumption of raw material is actually higher in this quarter. Will this trend continue in this quarter? And the



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last question is, what is the status of this CapEx plan which you have started around this quarter or last quarter?

Gopal Agarwal Raw material cost has come down in comparison to March quarter, although it is substantially higher than Q1 FY 2011, and given the circumstances we expect that this raw material cost will be hovering around this level in the current quarter also. And regarding the capital expenditure we have already started working over it and we expect to implement it as per the schedule.

Suranjoy Singh Okay, may I know what the schedule is?

Gopal Agarwal The schedule is September 2012.

Suranjoy Singh September 2012 for....

Gopal Agarwal For the start of production.

Suranjoy Singh Okay, that is time when all the projects will be, I think the CapEx plan will include the fiber also and this pet recycling also?

Gopal Agarwal Yeah, it includes the yarn spinning as well as pet recycling capacity expansion.

Suranjoy Singh So which one would be coming earlier yarn spinning or pet recycling, will there be...

Gopal Agarwal Both of it would be operationalised around the same time.



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- Suranjoy Singh** Okay, thank you. That's all from my side.
- Moderator** Thank you. The next question is from the line of Amit Tiwari from Escorts Mutual Funds, please go ahead.
- Amit Tiwari** I have a couple of questions. The first question is what is the percentage of exports in the last quarter sales, Gopalji?
- Gopal Agarwal** The exports are about 28% to the overall sales.
- Amit Tiwari** And going forward what do you expect, I mean in terms of export market, how much actually you would be catching there?
- Gopal Agarwal** We have increased our exports in overall sales and we expect it will be around 28% to 30% of our sales, in the coming quarter also.
- Amit Tiwari** And going forward, two or three years down the line, then do you have any plan to scale up that export business, because the export market is booming in this particular segment?
- S S Sharma** The export market is there, certainly there is some lower realization compared to the local market, however, it helps in spreading out our sales and customer base. Going forward we are looking for export sale of around 25% to 30%.
- Amit Tiwari** Okay 25% to 30%. Okay, and my other question is, what are the two key scalability drivers in this industry, which



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actually can take the company sales to like 1000 crore turnover or 700 crore turnover?

Gopal Agarwal With rising applications of finished products and increasing availability of waste with rise in consumption of pet resin, we would be increasing our waste recycling capacity constantly. Further, Company is looking for climbing in value chain through forward integrations which would improve the top line as well as bottom line. Company is also evaluating the other value added products from pet bottle waste like for bottle to bottle applications. We are also considering for recycling plastic products other than pet waste by leveraging our existing collection network.

Amit Tiwari Okay, and that's from my side. Thank you.

Moderator Thank you. Sir, currently there are no further questions. Sir, there are no further questions. Okay, I would now like to hand the floor over to Ms. Shweta Sinha for closing comments.

Shweta Sinha On behalf of Bonanza I would once again like to thank all of you for joining this call. Have a great day. Thank you.

Moderator Thank you. On behalf of Ganesh Polytex Limited that concludes this conference, thank you for joining us. You may now disconnect your lines.



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Due to technical problem, the communication was disrupted in between and so the leftover queries, received by us over mail, were resolved later which are given as under-

Rajesh Bhatt (Retail Investor) -

What have the proceeds from pledging the shares been used for?

Gopal Agarwal Shares have been pledged for arranging the finances for the Company.

Rajesh Bhatt What is the status of obtaining the funds for Rs. 125 Cr expansion (in addition to 13.5 Cr from OCD and 12 Cr from promoters)? What is the effective interest rate?

Gopal Agarwal Apart from the OCDs proceeds and promoters warrants, project would be funded through debt of about Rs. 80 crores and rest through internal accruals. For arranging the debt, company's proposal is under consideration with its bankers. In view of the substantial export sale, company is having the natural hedge and so it is going for availing major part of the debt in foreign currency where effective interest cost would be around 6-7% p.a.



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Rajesh Bhatt Currently the company's ROCE is around 17% - with the rise in interest rate, the gap between cost of funds and ROCE is narrowing. Are there any plans to deal with this?

Gopal Agarwal Rising interest cost would be having some impact over the profits of the company. However, with scheduled repayments of term loans and managing the working capital borrowings more efficiently, it would not be having any major impact. Further, interest cost is only 3% to the turnover and company is having comfortable debt equity ratio. So rising interest cost would not be having any major impact on the profits of the company.

Rajesh Bhatt What are the reasons for reduction in NPM In Q1 2012? Are we likely to see the NPM reach 6+% during the rest of the year?

Gopal Agarwal During the quarter, there was an abrupt fall in cotton prices which impacted the market sentiments and so the demand as well as prices of Recycled PSF. Capacity utilization is lower by about 10% during Q1 2012 on Q-o-Q basis. So the NPM , though it is almost at par with Q1 FY 2011, it is lower by 20 bps on q-o-q basis. We are however expecting buoyancy in demand during Q3 FY 2012 and are hopeful for better NPM.

Bhavna Garg (Share India Securities)



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Can you throw some light on your dividend policy?

Gopal Agarwal As discussed in last earning call, we would like to reiterate that Company is committed to reward the shareholders. However, being in growth mode, company is requiring the substantial accruals to be deployed to fund the expansion plans. Further provisions from accruals are also required for debt repayments to manage the company's future cash flows. So we shall try to make a payout of 10% of the profits to the shareholders in the form of dividend barring exceptional circumstances and situations.

Ashish Chug (Hidden Gems)

Over the past few weeks, we have seen a sharp decline in prices of cotton – how would that impact the company since the company manufactures material which can be an alternative to cotton in certain applications ?

Gopal Agarwal Sharp decline in cotton prices also affected prices of Recycled Polyester Staple fibre to some extent. However the decline is not as sharp as in the case of Cotton prices. Prices of RPSF have corrected by about 20% from their peak level during Q4 FY11 while in case of Cotton, price correction is by more than 50%. We sale our products to different segments like yarn spinners, non woven and technical textile, Stuffing in toys and comfort products. Price



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dynamics of all these sectors are different and therefore decline is not as sharper. Abrupt price movement in a brief period has impacted the demand in the market and so our top line as well as volume.

Ashish Chug Also, there has been a decline in prices of PSF – have the raw material prices also fallen to the same extent and how would our profitability be impacted in the current scenario?

Gopal Agarwal Raw material prices have also fallen but the fluctuation is not corresponding to the RPSF prices. This may impact a bit on the profitability in Q2. However, we are expecting buoyancy in demand in the coming months ahead of festive season and with better capacity utilization and volume growth, we would be able to maintain the margins.

Rajiv Purohit (Hem Securities)

During last 12 months, investor has not earned return as stock price are flat. Why should one "invest in Ganesh Polytex Limited".

Gopal Agarwal We do not understand much about the stock market dynamics and the factors which drive the stock prices. Company is performing well and during last five years its turnover is growing at a CAGR of 35% and profits is growing at CAGR of 60%. Basic EPS has increased to Rs.



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12.99 from Rs. 2.0 during the same period. During FY 11, there is a growth of 46% and 100% in top line and bottom line respectively.

During FY 11, our scrip has moved to Rs. 64.20 (closing prices as on 31.03.2011 at BSE) from Rs. 47.10 (closing prices as on 01.04.2010 at BSE) thus registering a return of 36%. During the same period BSE SENSEX and Small cap index has delivered a return of 9.9% and (-) 6.1% respectively. During last one year also (August, 2010 - July, 2011), our scrip delivered a return of 27.3% while during the same period BSE SENSEX delivered a return of only 0.6% and BSE Small cap delivered a negative return of 12%.

Data reveals that our scrip has over performed the broad indices. Further, circumstances during last one year are also not conducive for stock market growth due to uncontrolled inflation, increase in interest rates, contraction of growth rate etc. So with the improvement of general market conditions, we hope our scrip may deliver good returns in future.

Ajit Agarwal (Unicon Securities Pvt. Ltd., Mumbai)

What is the Revenue breaks-up on product wise and geography wise for Q1FY12?



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Gopal Agarwal Revenue break-up is - Recycled PSF - Rs. 75.45 Cr. and Yarn Rs. 9.0 crore. Exports sales were Rs. 23.02 crore while domestic sales were Rs. 61.43 Crore.

Ajit Agarwal What is the Revenue driver for the quarter Q1FY12?

Gopal Agarwal Main revenue drivers are capacity expansion of 18000 tpa (operationalized during October, 2010) and increase in average sales realizations by 28% on YoY basis.

Ajit Agarwal What are the Production and pricing details of the finished goods and what is the guidance for the FY12.

Gopal Agarwal During Q1 FY12 - Recycled PSF production was 9173 MT and average sales realizations were Rs. 83 a kg. Yarn production was 566 MT and average sales realizations were Rs. 157 a kg. We expect an increase of about 25% in top line over FY 11.

Ajit Agarwal What is the Capex plan and execution period?

Gopal Agarwal Capex Plan is of Rs. 125 crore and execution period is 15 months.

Ajit Agarwal Any plan for fund raising in near term?



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Gopal Agarwal For the ongoing expansion, we are not looking up for funds except the debt portion which is being tied up with our bankers. We would be requiring funds for next round of expansions.

Ajit Agarwal Industry view as low entry barrier.

Gopal Agarwal From raw material point of view, Pet resin consumption is increasing by about 9% p.a. and so the quantum of waste. Market of polyester is also growing at about 7% per annum. Further the market of non woven and technical textile is also increasing at much faster pace. Applications of recycled PSF are also increasing so we expect good demand going forward. However falling cotton prices are matter of concern.

Prakash (Master Capital Services Ltd.)

Why you should be counted as recycling company and not a textile company?

Gopal Agarwal There are two three reasons for that. One we are making recycled polyester fibre from recycling of pet bottle waste while virgin fibre is made from petro chemicals. Two collection and use of pet bottle waste is much cumbersome process than the PTA/MEG which is purely commodity and are available on demand. Three, recycling of pet waste and



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making fibre out of it is environmental friendly activity as waste bottles are threat for environment. Further, waste recycling always results into producing some commodity, which is substitute of similar commodity made from virgin material. Waste recycling results into lower carbon footprints by turning the waste into resource which in turn saves the exploitation of finite natural resources. Currently we are recycling around 5-6 million bottles per day and handling of such huge waste volume while creating positive environmental impact justifies our positioning as waste recycling company.

Kunal (Motilal Oswal)

Why Company is making such a huge capex for yarn spinning?

Gopal Agarwal Expanding into Yarn spinning has complete synergy with our existing operations. Raw material would be available in-house. We are already having presence and network for yarn marketing. So we need not to build sourcing and marketing network. We would be getting the saving in transport and marketing expenses besides having online product development facilities. We would also be getting more realization of our down grade products by processing in our own spinning unit. This will result into improvements in



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margins. So investment in spinning unit is a prudent investment.

Rajiv Kumar (APN Equity Research Pvt. Ltd.)

What is the status of other plastic waste recycling programs?

Gopal Agarwal Presently we are concentrating on the ongoing expansion plans. Recycling other plastic waste is on our agenda and study is being carried out simultaneously for other plastic waste recycling projects.

Amritpal Singh (Ethics Investment)

Does your products find any application other than yarn/clothing?

Gopal Agarwal Apart from pure textile applications, recycled fibre finds application in insulation, filters, geo textile, furniture, soft toys, pillows, mattresses, construction, paper etc.

Anil Bhal (Individual Investor)

How much pet waste was processed in June Quarter? Also provide the YoY and QoQ comparison?

Gopal Agarwal We recycled about 50 crore bottles in June 11 quarter. The approximate numbers for March,11 and June, 10 quarters are 57 crores and 37 crores bottles respectively.



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R.N. Gupta (Analyst)

Is there any planning for changing the name of the company, depicting the line of business more precisely?

Gopal Agarwal We are going to put up the proposal to our members in the ensuing AGM for changing the company's name.