



“Ganesh Polytex Limited Q4 FY11 Earnings Conference Call”

June 08, 2011



MODERATORS: **MR. SHYAM S SHARMA – CMD, GANESH POLYTEX.**
 MR. GOPAL AGARWAL – CFO, GANESH POLYTEX.



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June 8, 2011*

Moderator: Ladies and gentlemen good day and welcome to the Ganesh Polytex Limited Q4 FY11 earnings conference call hosted by Mutual PR. 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 today's presentation. We have with us in the call today Mr. Shyam S Sharma, CMD; Mr. Gopal Agarwal, CFO; and Mr. Sharad Sharma, JMD. If you should need assistance during the conference call, please signal an operator by signaling * and 0 on your touchtone phone. Please note that this conference is being recorded. At this time, I would like to hand the conference over to Mr. Shyam S Sharma, CMD, Ganesh Polytex Limited. Thank you and over to you sir.

Shyam Sharma: Good evening Ladies and Gentleman. It is indeed a matter of great pleasure and privilege to welcome you all to the Q4, FY2010-11 conference call of our company. I will quickly go through our financial performance.

Our performance in Q4FY2011 has been quite encouraging and company's revenue and profits have scaled a peak this year. Net sale has increased by 93% to reach Rs. 105.32 crore from Rs. 54.52 crore during Q4FY2010. In term of EBITDA, the number has gone up to Rs. 12.4 crore during the quarter from Rs. 7 crore, which is an increase of 76%. Profit after tax is also up to Rs. 6.5 crore from Rs. 3.1 crore, which is an increase of 110%. Basic earnings per share for the current quarter stand at Rs. 4.68 which is also up from Rs. 2.81 during corresponding previous quarter.



*Ganesh Polytex Limited
June 8, 2011*

Exports sale has also gone up to Rs. 23 crore from Rs. 9.5 crore and the exports now stands roughly around 18% of our top line.

On annual basis, Net sales have increased by 46% to Rs. 291 crore from Rs. 199 crore during FY10. EBITDA stood at Rs. 36 crore compared to Rs. 24 crore during corresponding last year recording an increase of 50%. Profit after tax in FY11 is 18 crore translating into a Basic EPS of Rs. 12.99. On the back of encouraging performance, Board has recommended a dividend of 12% for FY11.

During the quarter under review, prices of finished goods were highly volatile on the back of historically higher cotton prices and resultant increase in Virgin PSF prices. Cotton prices and Virgin PSF prices have now come down by about 25% from their peak level, which also impacted the prices of Recycled Fibre and may affect our top line during the current quarter.

With population growth and changing life style, demand of various commodities is increasing which is exerting pressure on scarce natural resources. Recycling is the solution to conserve the natural resources and reduce the carbon foot prints. With growing awareness for environment, people are realizing the value of recycling and so recycled products are going to be in great demand in the time to come. So going forward we foresee a good demand of recycled fibre.

In the backdrop of long term growth opportunities of recycling industry and on the back of our large production base coupled



*Ganesh Polytex Limited
June 8, 2011*

with future growth plans, I firmly believe that we are well placed to explore those opportunities and confident enough to maintain the kind of growth, which we have witnessed during last 5-6 years, in future also. Now I invite all the participants for question and answer session. Thank you.

Moderator: Thank you sir. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Dhwani Shah from KBS Capital. Please go ahead.

Dhwani Shah: Sir your profits have shown a significant growth, but the dividend has increased from just 10 to 12% and the investor community was expecting about 15% or so. So can you give some clarity on that sir?

Gopal Agarwal: Actually the management of the company is committed to reward the shareholders, but the company is into the growth mode and is implementing sizeable expansions for creating growth in the company as well as wealth for the shareholders. These expansion plans are to be funded through a blend of debt, equity and internal accruals. So internal accruals are needed to be ploughed back to limit the expansion of debt and equity. Part of the internal accruals were also needed for repayment of scheduled term loan repayment. So the board decided for dividend of 12% which is about 9% of the profits; however, we are trying to make at least 10% payout of the profit to the shareholders in future barring unforeseen circumstances.

Moderator: Thank you. The next question is from the line of Rakesh Kumar from BELL Finvest. Please go ahead.



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June 8, 2011*

Rakesh Kumar: Sir please explain 125 crores Capex plan in detail?

Gopal Agarwal: We are going for expanding of recycling capacity by about 14,000 tonnes and also putting up a forward integration project in yarn spinning unit with a capacity of 25,000 spindles. The 100 % raw material for the unit will be RPSF and the unit will consume around 10% production of existing waste recycling capacity. Required Land etc.been acquired. Construction and civil work is going on and we are in the process of finalizing the machinery orders. Project is expected to be commissioned within next 12 months.

Rakesh Kumar: Sir what is the progress on this side till date?

Gopal Agarwal: We have acquired the land and construction and civil work is going on.

Shyam Sharma: Advance for basic machineries has been placed and balance is under progress.

Rakesh Kumar: And what about the funds sir whether the fund is arranged for?

Gopal Agarwal: Some funds are available with the company in the form of capital and internal accruals and some we are tying up with our bankers through borrowings.

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

Nisha Manjari: Good afternoon everyone. Sir my question is regarding your 125 crores expansion plan. You just mentioned that part of the funding



*Ganesh Polytex Limited
June 8, 2011*

would be through bank loans and all that. Could you give us a percentage of the total amount that would be through banks and debt?

Gopal Agarwal: About 65% would be through debt and 35% through equity and internal accruals.

Nisha Manjari: So out of this 35% equity, how much has already been raised?

Gopal Agarwal: We have raised 13.5 crores from IFICI Venture Fund and 9 crores we will be putting in through conversion of warrant already allotted to promoters.

Nisha Manjari: And for this 65% debt part, what is your expected average cost?

Gopal Agarwal: We are expecting an average cost of 9 to 10%.

Nisha Manjari: So how this is going to change your overall debt-to-equity ratio?

Gopal Agarwal: After availing this loan, the peak debt equity would be around 1.4.

Nisha Manjari: And as of March 11, this is?

Gopal Agarwal: It is below 1.

Nisha Manjari: Okay fine. Second question is regarding your financial results in absolute terms, company has shown really good performance, but it seems there is some pressure in margin terms, any specific reason for that?



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June 8, 2011*

Gopal Agarwal: It is because of levy of excise duty on our Kanpur unit which was not there last year and also we made a one-off provision for a doubtful advance of Rs. 85 lakhs.

Nisha Manjari: So this levy that you are saying this was for last quarter or during full year?

Gopal Agarwal: It was impacted us from the Q3 FY11 onwards.

Nisha Manjari: My next question, this was regarding benefit from carbon credits? Company is saving so much in terms of energy. So why we are still not registered for benefiting from carbon credits?

Gopal Agarwal: As carbon credit norms for plastic recycling has been introduced just in January 2011 and there is no precedence so far except a project in overseas location who actually got the carbon credits on plastic recycling.

Nisha Manjari: So they have got it this year?

Gopal Agarwal: Yes. There is a condition of additionality as well as various economic, financial and technological barriers. We are having dialogues with the consultant who managed the carbon credit for that overseas project and we shall inform you as soon as any positive development comes in.

Nisha Manjari: Any timeframe approximate?

Gopal Agarwal: It cannot be decided as of now. We are in dialogue with the consultant.



*Ganesh Polytex Limited
June 8, 2011*

Nisha Manjari: And the company has expanded considerably from the past year and they have future plans as well. So what is the manpower status, retention and management and all that. Is company taking any challenges on that front?

Gopal Agarwal: Besides improving job enrichment and other promotional measures, we are planning for employee participation in ownership of the company through ESOP.

Nisha Manjari: By the end of this year, how much equity dilution can we expect on account of funding and all?

Gopal Agarwal: As of now, we have given 8% equity to the IFCI venture and we are also in talk with some other parties for raising the funds, but it will be raised only if the right valuation comes in.

Nisha Manjari: But I see already 53% of the company shares are pledged. So isn't it somewhat on a risky side?

Shyam Sharma: Shares have been pledged for raising the funds for the company and as it is deployed for growth of the company, we do not sense any risk.

Moderator: Thank you. The next question is from the line of Vaibhav Kumar from Canara Robeco. Please go ahead.

Vaibhav Kumar: Sir in your last con-call, you stated that the overall EBITDA margin will improve from 13% to 16% for the next fiscal, so just wanted to know what are the drivers for that?



*Ganesh Polytex Limited
June 8, 2011*

Shyam Sharma: We are going for expansion of recycling capacity and also moving into forward integration. So we expect the improvement in EBITDA margins after the commissioning of the expansion.

Moderator: Thank you. The next question is from the line of Naga Deepika from Capital Market. Please go ahead.

Naga Deepika: Congrats on good set of numbers. We wanted to get an update on the yarn and fiber prices. You said like last time you had a bulk order which was executed at a lower price, so we are not able to take the advantage of the increase in yarn and fiber prices at that particular time. So I would like to know what would be the booked orders currently and at what price we are booked and what is the average quarterly price for yarn and fiber?

Gopal Agarwal: The average quarterly yarn prices are Rs. 157 a kg during the March quarter and fiber prices were Rs. 88.

Naga Deepika: What were the orders, did we book any orders because I could see these prices on an upfront on Q on Q basis?

Gopal Agarwal: During the last quarter, there was a very high volatility in the prices of fiber. So we did not book much order at the end of the month.

Naga Deepika: But what would be the order book position, if we have anything on this?

Shyam Sharma: We are having around one month order book.



*Ganesh Polytex Limited
June 8, 2011*

Naga Deepika: And coming back to the CapEx, you said about this 125 crores expansion of about 14,000 tonnes. Can you just elaborate on the commission date also?

Gopal Agarwal: We are expecting to commission the project by the end of first quarter of FY13.

Shyam Sharma: And the commercial operations will be started in third quarter of FY13.

Naga Deepika: I did not understand, why was the lag of one quarter?

Gopal Agarwal: Because the commissioning is just an implementation of the plant and therefore to take it into commercial production the plant takes some time to stabilize operations.

Naga Deepika: You mean the plant will ramp up to 100% capacity utilization in 3Q FY13 right?

Gopal Agarwal: 100% is not possible initially, but we expect 75% capacity utilization once the plant is operationalized.

Naga Deepika: From 3Q FY13 right?

Gopal Agarwal: Yes.

Naga Deepika: And wanted to know on the machinery front what we are planning to get, this will be the normal spindles right, like spindles that produce yarn or the machinery is somewhat different from the normal virgin?



*Ganesh Polytex Limited
June 8, 2011*

- Gopal Agarwal:** For yarn spinning, we are taking the machinery from India and for the recycling capacity; we are sourcing the machinery from overseas.
- Naga Deepika:** I just wanted to understand are you able to take advantage of lesser machinery prices in par with the textile industry on spinning front because of this expansion?
- Shyam Sharma:** Prices will be same as available to others in the textile industry. So machinery prices are comparable but we would be taking the advantage of better margins. So we will be getting a better contribution.
- Naga Deepika:** Are we not able to take loans under TUF scheme because of these are all.
- Shyam Sharma:** Spinning we will be taking under that only.
- Naga Deepika:** What would be the amount of debt?
- Gopal Agarwal:** The total loan amount we are contracting is 85 crores for expansion as well as Greenfield project.
- Naga Deepika:** All will be under TUF scheme?
- Gopal Agarwal:** Around 50% will be under TUFS.
- Naga Deepika:** There the average interest rate would be around 5 to 6%?
- Gopal Agarwal:** I do not think it is 5 to 6%, but there is an interest subsidy of 4%. So it will be costing around 8%.



*Ganesh Polytex Limited
June 8, 2011*

Naga Deepika: And can you just give us the debt and cash equivalents at the end of FY11?

Gopal Agarwal: The delta in case of fiber is around Rs. 35.

Naga Deepika: No, I was asking on the total debt numbers on the balance sheet?

Gopal Agarwal: The total debt as on 31st March 2011 was 66.5 crores.

Naga Deepika: And the cash?

Gopal Agarwal: The cash was around 7 crores.

Shyam Sharma: We are having about Rs. 4 crores in bank limits also.

Gopal Agarwal: We were also having some room in bank limits also because the bank limits were under utilized.

Naga Deepika: And that would be around 4 crores?

Gopal Agarwal: Yes.

Naga Deepika: Thanks sir, got it.

Moderator: Thank you. The next question is from the line of Pallavi Susodia from Center Core Monitoring. Please go ahead.

Pallavi Susodia: Good afternoon sir. Sir my question is, I need the information regarding your PET Flakes project coming up at Rampur. Sir when will this project commission?

Gopal Agarwal: As we have already told the project is expected to be commissioned by 30th June 2012.



*Ganesh Polytex Limited
June 8, 2011*

- Pallavi Susodia:** What is the investment made in this project?
- Gopal Agarwal:** We have invested around 10 crores as of now in the project.
- Pallavi Susodia:** And what will be the overall investment?
- Gopal Agarwal:** Overall investment size is 125 crores.
- Pallavi Susodia:** Okay sir. What is the capacity which will be.....
- Gopal Agarwal:** In case of recycling capacity, it would be 14,000 tonnes. In spinning, it is 25,000 spindles.
- Pallavi Susodia:** Of PET Flakes?
- Gopal Agarwal:** 25,000 spindles for yarn spinning.
- Pallavi Susodia:** And 14,000 tonnes for?
- Gopal Agarwal:** For Recycling of PET Flakes.
- Moderator:** Thank you. The next question is from the line of Rahul Dholam from Unicon Securities. Please go ahead.
- Rahul Dholam:** Once again congratulations on a great set of numbers. Last two years the business has boomed because purely due to the availability of waste that has come in prominence. I wanted what is your plan to secure the future waste procurement?
- Shyam Sharma:** Apart from the existing network, we are planning to have a collection point at Saudi Arabia/ Middle East. We are planning for putting some plants there for packing the materials and bringing it in India.



*Ganesh Polytex Limited
June 8, 2011*

Gopal Agarwal: And we are also trying to expand our collection center base and also to develop and expand a grass root level collection system.

Rahul Dholam: So currently from what I understand we have a franchise system and we have our own collection centers. If you could just give us the current breakup of how many are our own centers and how many are franchises and what is the difference in terms of cost for collection of waste?

Gopal Agarwal: All of the collection centers are on franchise model. We are having around 25 collection centers and collection cost is around 3 to 4% cheaper.

Rahul Dholam: From the franchise centers and apart from this, you also acquire from various dealers?

Gopal Agarwal: We are acquiring raw material from scrap dealers also.

Rahul Dholam: So where are these dealers generally, are these dealers focused in the central parts around Kanpur or are these Pan-India?

Gopal Agarwal: We are buying from scrap dealer where we are not having our franchise collection centers.

Rahul Dholam: And there the costs are about 4 to 5% high you are saying?

Gopal Agarwal: Yes.

Rahul Dholam: what would be approximate rate at which we would increase our franchise centers, the centers that we own?



*Ganesh Polytex Limited
June 8, 2011*

Shyam Sharma: With own collection centres basically the advantage that we have is that we get better quality. The waste that we procure is full of contamination. So we get primary sorting there and so waste becomes some clean for us. Already we are procuring around 50 to 60% from our centers only.

Rahul Dholam: So are you planning to increase this?

Shyam Sharma: We are planning to increase slowly with firm footings only.

Moderator: Thank you. The next question is from the line of Siddharth Oswal from Mastertrust. Please go ahead.

Siddharth Oswal: Good afternoon sir. My question is what is your outlook for the textile industry in general and Ganesh Polytex for the next one year?

Shyam Sharma: Basically market is fluctuating because of cotton, but looking at the world market the scenario seems to be good for coming five years. Cotton prices had fluctuated heavily this year, but viewing the overall textile market particularly because European and other western markets are basically depending on Asian manufacturers, scenario seems to be promising.

Gopal Agarwal: In the next 3-4 years' time, the textile growth is about 10 to 12% per annum and with the kind of expansions and the market penetrations, we are looking for a growth of 30 to 35% for Ganesh Polytex Ltd.

Moderator: Thank you. The next question is from the line of Milie Nandy from IFCI Venture Funds. Please go ahead.



*Ganesh Polytex Limited
June 8, 2011*

Milie Nandy: First of all congrats for achieving such great numbers. My first question is to know that what has specifically driven the sales this year to 291 crores and what is your feel that you are going to perform and what would be the demand scenario for RPSF and your spun yarn in the coming next 2 years?

Gopal Agarwal: Growth is because of two elements, one, we have put up an expansion plan of 18,000 tonnes during FY11 and making our capacity from 39,000 to 57,000 tonnes. Another is the price increase in the finished product. With both these factors, we are able to make a significant growth in Q4 numbers.

Milie Nandy: How much has been the price increase of the product sir, how much is the percentage of increase?

Gopal Agarwal: The percentage increase in prices for the quarter is about 20-25%.

Milie Nandy: Of RPSF?

Gopal Agarwal: Yes RPSF.

Milie Nandy: And what about the demand for spun yarns?

Gopal Agarwal: Demand of spun yarn is very good.

Milie Nandy: And I also like to know that what percentage of your sales will come from stuffing and non-woven textile industry other than spun yarns and yarns?

Gopal Agarwal: 40% of our turnover is coming from this non-woven and stuffing sector.



*Ganesh Polytex Limited
June 8, 2011*

Milie Nandy: So this year I can see in 2011 figure, 40% of your sales has come from stuffing and non-woven textile sales and you would gradually increase the portion?

Gopal Agarwal: We are trying to increase the portion.

Milie Nandy: And sir what about the 2-month sales from March, this year sales?

Gopal Agarwal: This quarter sale is little bit affected due to downturn in prices and two months sales is about 50 crores.

Moderator: Thank you. The next question is from the line of Sanjeev Agarwal who is an individual investor. Please go ahead.

Sanjeev Agarwal: Good evening sir. My question is with regard to the current assets. Though the sales have increased impressively by 46%, but the current assets have also increased by 57%. So any specific reason for increasing, like especially the debtors have gone up by 100%. So it is the trend going forward or you think there would be reduction in inventory going forward?

Gopal Agarwal: I think if you take it in the proportionate to the sales, in fact inventory holding period has come down to 28 days.

Sanjeev Agarwal: It cannot be because the debtors have gone up by 100% and sales have gone up by 46%.

Gopal Agarwal: I am talking about the inventory holding period.

Sanjeev Agarwal: Let us concentrate on the debtors only. The debtors have gone up by 100%. So is there any specific reason for that for this year you



*Ganesh Polytex Limited
June 8, 2011*

had to push sale that is why the debtors were more or next year going forward the debtors will go down.

Gopal Agarwal: During FY10, there was an exceptional demand. So in that year, our inventory and debtors both have gone down to a historically low level.

Sanjeev Agarwal: That was the aberration basically and this is a normal trend?

Gopal Agarwal: This is the normal trend.

Moderator: Thank you. The next question is from the line of Siddharth Purohit from Sanguine Capital services. Please go ahead.

Siddharth Purohit: My question is regarding the shareholding pattern of the company. Is there any FII holding in the company or any major institutional investor since the detail is not given in the press release and sir the second question is regarding the fund raising. Is the company considering any kind of equity participation or may be some strategic investor from a private equity point of view?

Gopal Agarwal: FII holding is below 1% and company is talking with various investors for raising funds for future growth plans and exact details will be given when it is finalized.

Moderator: Thank you. The next question is from the line of Viren Verma from Global Holding Corporation. Please go ahead.

Viren Verma: Good evening sir. Sir looking at your presentation on slide No.17, there is a projection for FY12 and the tonnages, are you on track for those projections or will there be any variation to it?



*Ganesh Polytex Limited
June 8, 2011*

- Gopal Agarwal:** We are expecting.
- Viren Verma:** And sir can you just say like in the presentation also your vision is for to reach 1000 crores in the next 5 years. So can you just give that how you will grow to 1000 crores from here?
- Gopal Agarwal:** With the kind of growth which we are maintaining since last 5-6 years, we would be able to reach that figure within the next 4-5 years. We are having around 35% compounded annual growth rate.
- Viren Verma:** So you expect to maintain that growth?
- Gopal Agarwal:** We expect to maintain that growth.
- Viren Verma:** Sir just more of a broader question like say the business model you are following is very unique and to understand, are there any companies outside India or within India who do this kind of business from PET to making yarn and what are the risks perceive going forward with this business?
- Gopal Agarwal:** There are units which are making the fiber from the PET flakes but they are mostly from unorganized sectors in India.
- Viren Verma:** Nobody is doing on a scale like you and outside India?
- Gopal Agarwal:** We are not aware of if any organization is having such a size.
- Viren Verma:** Sir it is like the kind of growth, what risk you perceive in this business, any risk you are perceiving?
- Gopal Agarwal:** There are risks related to raw material prices.



*Ganesh Polytex Limited
June 8, 2011*

- Shyam Sharma:** Market fluctuation, political stability of the country, etc.
- Viren Verma:** They are more broader aspects which affects every business like say may be yarn or a PET bottle it means specifically to your business like say, there is a new technology which comes which may not become redundant or something on that line?
- Gopal Agarwal:** We are using the latest technology and we are also updated with the latest technology. Going forward for our new expansion, we are using the most latest technology.
- Viren Verma:** Internal technology or like you have outsourced from somebody?
- Shyam Sharma:** It is from Europe and Chinese market.
- Moderator:** Thank you. The next question is from the line of Rahul Agarwal from HBJ Capital. Please go ahead.
- Rahul Agarwal:** Hello Mr. Sharma, very good afternoon. My question is to understand about the independence of the board. Last year we saw that there were 4 independent directors. How many are there this year?
- Shyam Sharma:** Now also 4 are there.
- Rahul Agarwal:** And last year also we saw that 3 out of 4 independent directors were not very regular at the board meetings. So was the situation same this year also?
- Gopal Agarwal:** The independent directors are attending the board meetings.



*Ganesh Polytex Limited
June 8, 2011*

Gopal Agarwal: And recently we have inducted Mr. S. P. Arora, Managing Director from IFCI Venture Capital as a board member.

Rahul Agarwal: Can you please share what was their attendance in the board meeting during the financial year?

Gopal Agarwal: We are just now not having the records with us. We can reply you later on.

Rahul Agarwal: My next question is regarding the commission which you pay to the independent directors. So is that anywhere linked to the performance or their contribution to the board or it is a flat fee?

Gopal Agarwal: Certainly it depends on their contribution and attendance in board meeting.

Rahul Agarwal: But last year what we saw was that 3 directors were not very regular and still commission pay to all the 4 was same?

Shyam Sharma: This year, we have changed the system totally and the commission paid is proportionately only on the attendance.

Gopal Agarwal: Attendance and their contribution they make to the company.

Rahul Agarwal: So I think we have a better board from this year onwards, right?

Gopal Agarwal: Yes.

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



*Ganesh Polytex Limited
June 8, 2011*

Shailesh Kumar: Good evening Gopalji and congrats for the good set of numbers. My first question is bifurcation of sales between domestic and the export market?

Gopal Agarwal: We have made 78% sale in domestic market and 22% in export market during Q4.

Shailesh Kumar: And product wise, can we have the same bifurcation?

Gopal Agarwal: The export is for recycle fiber only.

Shailesh Kumar: Sir my second question is regarding your raw material security. During the con-call, it has been said that you are planning to source some raw material from Saudi Arabia as well. So don't you think it will upset your transportation cost and further increase the raw material prices for you?

Gopal Agarwal: But at the same time the quality of the raw material will be much better than the Indian market.

Shailesh Kumar: And there were also plans to widen your raw material base from PET bottles to other kind of plastic products, so what is the progress on that front sir?

Gopal Agrawal We are still studying the projects and we will share with you the information at the right time when we will be finalizing something.

Shailesh Kumar My last question is regarding your 30% to 35% CAGR of projection or next five years the expansion will be taken the same line of business or there will be some diversification or minor changes in the product lines?



*Ganesh Polytex Limited
June 8, 2011*

Shyam Sharma Both the things will be there. Strengthening the recycling, which is our main business and value addition basically through forward integration to produce spun yarn?

Shailesh Kumar So basically your focus will be on value addition?

Shyam Sharma Both the factors will be there.

Gopal Agrawal We will also increasing the recycling capacity as well as focusing on the value-added products.

Moderator Thank you. The next question is from the line of Dhruvesh Sanghvi from Equity Masters. Please go ahead.

Dhruvesh Sanghvi My question is regarding the promoter pledging, can you just explain what is the purpose of the pledging that you had?

Gopal Agrawal For raising the funds for the company.

Dhruvesh Sanghvi So this 125 crores of CapEx or the Equity is brought by putting the promoters shares into pledge?

Gopal Agrawal Yes.

Moderator Thank you. The next question is from the line of Sarvesh Gupta who is an individual investor. Please go ahead.

Sarvesh Gupta Hello Mr. Agrawal congratulations for producing an excellent set of results. My first question is about the raw material prices. So what has been a year-on-year increase in the raw material prices from the two sources, A) Your franchisee center and B) the non franchisee centers?



*Ganesh Polytex Limited
June 8, 2011*

- Gopal Agrawal** From quarter-to-quarter basis the raw material prices have gone up from Rs 27 to Rs 50 in Quarter 4.
- Sarvesh Gupta** And what has been the price of raw material as procured from your franchisee centers versus a non franchisee centers?
- Gopal Agrawal** It is an average of both.
- Sarvesh Gupta** But what is the price from the franchisee center from your own collection centers?
- Gopal Agrawal** There is difference of 3% to 4% in both the prices.
- Sarvesh Gupta** And are the prices of PET bottles have been going up in other markets like China as well we have seen 100% increase in the raw material prices. So aren't you thinking that this is going to affect your markets in the future?
- Gopal Agrawal** The situation during March quarter was extraordinary, there was an impulsive increase in prices of cotton as well as Virgin fiber, prices were increasing on frequent intervals and increased more than 25% during the quarter, So panic was created in the market among the buyer community for buying the fiber. Recyclers in unorganized sector, who are dependent on scrap dealers for their requirement, were buying up PET bottles waste at any cost to reap the benefit of the extraordinary situation. Further with the unusual increase in prices of these products within a very short span of time, export of scrap had also become viable, so demand of scrap was generated suddenly which had driven the prices. We are having committed buyers and have some advanced order book of one to two months,



*Ganesh Polytex Limited
June 8, 2011*

so to maintain the supply chain we have also increased our collection charges. This was an unusual situation which could not last during the current quarter and with cooling off of cotton and polyester fiber prices, raw material cost has also come down to a normal level.

Sarvesh Gupta But going forward what is your view on the prices of the raw material?

Gopal Agrawal The prices of raw material have come down to normal level.

Sarvesh Gupta They are going up everywhere.

Gopal Agrawal No now the prices have come down.

Sarvesh Gupta In your own business model what do you think is your core competency, is it the collection or is it the conversion because if I am doing my own 100 crores can I create a capacity similar to you and hence create another Ganesh Polytex, what is entry barrier in your business?

Gopal Agrawal Our USP is the conversion.

Shyam Sharma Collection to some extent but the main USP is conversion.

Sarvesh Gupta So what do you do in conversion which others can't do, why can't somebody replicate a Ganesh Polytex process?

Gopal Agrawal Actually we have developed our technologies and system over 15 years' time. So anybody who will spend such a time, might be able to do that.



*Ganesh Polytex Limited
June 8, 2011*

- Sarvesh Gupta** But do you think that somebody can't do that in his 3 to 4 years' timeframe?
- Gopal Agrawal** During the last 15 years, we have made a base of our collection centers for good quality of material, we have made conversion systems and technologies, and we have also made a large variety of products to cater various applications industry. So we have made these barriers in this respect, so I don't think within a span of 3 to 4 years anybody can catch us.
- Sarvesh Gupta** So one more question that I had in this 125 crores CapEx you are also investing a lot of amount into forward integrating from yarn to fiber and fiber to yarn so why are you doing that when your core competency is being a recycler, why are you forward integrating into other products?
- Gopal Agrawal** Because it is a matter of consolidation, we are consolidating our operations. In case of yarn spinning we will be saving in case of the marketing costs, in case of transportation costs. Further we will be having online product development systems and we are already into the yarn market with our yarn processing activity. So it is having a synergy with our existing operations.
- Sarvesh Gupta** But don't you see that if you have 125 crores and I see a lot of demand in recycling itself. I would rather invest that amount in recycling which is generating me a 25% to 30% ROE than forward integrating?
- Gopal Agrawal** Actually capacity cannot be added once a while, it has to be increased gradually. We are increasing that capacity gradually



*Ganesh Polytex Limited
June 8, 2011*

since last 5 years and have increased our capacity from 10,000 to 57,000 tonnes.

Shyam Sharma Development takes place gradually over the time, customer relations are to be developed gradually, that takes its own time. We are having committed local as well as overseas buyers' network and relationship. Also we have committed relationship with suppliers. This is a gradual process to market a huge quantity. To cater to various user industry like yarn spinning etc., we have to develop the varieties of the products and marketing/ selling arrangements that is a pre-requisite for increasing the capacity. We have to concentrate on these aspects first before creating any additional capacity otherwise anybody can come and go ahead.

Sarvesh Gupta And regarding your EBITDA margins in the past 3 years they have been clearly constant at around 12% to 13% levels, so why do you think this will go up?

Shyam Sharma This will go up because we are going on the value addition and forward integration.

Sarvesh Gupta So are you also suggesting that in the past year the value addition has not contributed to your EBITDA margins because they have been basically flat?

Gopal Agrawal Value addition has contributed to our EBITDA margins but there is constant increase in all type of costs, input cost as well as conversion cost. Besides there was excise impact also. So we could maintain, in fact we had increased an EBITDA margin from 11%



*Ganesh Polytex Limited
June 8, 2011*

to 12.5% during the last three years despite the increase in the overall cost.

Sarvesh Gupta And my final question was about debt-to-equity ratio, you said that the debt to equity ratio right now is less than 1 but in the annual results the total loan funds were 80 crores and your net worth is 61 crores. So am I missing something here?

Gopal Agrawal Yeah there is 13.5 crores from IFCI with is sitting in the debt as of now.

Moderator Thank you. The next question is from line of Deepak Agrawal form Impetus Advisors. Please go ahead.

Deepak Agrawal What was been the realization for PSF during the quarter?

Gopal Agrawal It was Rs 88 average.

Deepak Agrawal What is the input-output ratio between the PET waste and the PSF?

Gopal Agrawal It is around 88%.

Deepak Agrawal 88% is the yield that you get?

Gopal Agrawal Yes the yield.

Deepak Agrawal What was the sales volume during the quarter of the PSF?

Gopal Agrawal We sold 10,700 tonnes fiber.

Deepak Agrawal What is the value of PSF?

Gopal Agrawal It is around 95 crores.



*Ganesh Polytex Limited
June 8, 2011*

- Deepak Agrawal** What is the production of PSF?
- Gopal Agrawal** Production was 10,500 tonnes.
- Deepak Agrawal** Now with the rise in the prices of PSF in general about delta per tonne of PSF has been rising, right?
- Gopal Agrawal** Yes.
- Deepak Agrawal** Now if prices keep coming down of PSF then our delta will also get squeezed?
- Gopal Agrawal** Yeah.
- Deepak Agrawal** The other expenses during the quarter had risen substantially this year, last quarter it was very low this time it's 11 crores, can you explain what actually drives to that?
- Gopal Agrawal** The other expenditure includes a sizable marketing cost which includes the export freight also, during the quarter our exports have increased substantially from 9 crores to 23 crores. So the other expenses also increased accordingly.
- Deepak Agrawal** 9 crores is what in the quarter March 10 or December 10?
- Gopal Agrawal** 9 crores in March 10. It has gone up to 23 crores.
- Deepak Agrawal** What was it in December 10 quarter?
- Gopal Agrawal** It was 11 crores in the December 10 quarter.
- Moderator** Thank you. The next question is from line of Pramod Bhatt form Bonanza Portfolio. Please go ahead.



*Ganesh Polytex Limited
June 8, 2011*

Pramod Bhatt

Congratulations, very nice set of numbers. I have few questions; I will just read out the questions first. You have given me the fiber rates and yarn rates from March 2011; I wanted it from March 2010 and December 2010 also. My second question is regarding your fund structure for expansion plans. You have said that you will be requiring about 20 crores balance which you're looking to raise from either strategic investors or any other source because 13.5 crores approximately over from **IFCI** , 9 crores promoters will be chipping in so if I were to assume the 35% equity is needed for the expansion you would require about 20 odd crores. My question is if you are making about 18 odd crores every year would you really require a strategic investor that is one and second if you're looking for a bigger chunk then what is the size of funding you will look at and the third question I have is on your carbon credit which you had earlier indicated that you would receive about 2 crores. Would that still stand for FY12?

Gopal Agrawal

For our 125 crores expenses, we require 40 crores with a mix of internal accruals and equity, equity part we have already tied up 13.5 crores from IFCI, 9 crores warrants to be converted and the balance 17 crores we would be putting in through internal accruals. So for this expansion plan we are really not requiring any equity infusion but for future growth plans we may be taking some equity provided it is available at a right pricing and regarding carbon credit I have already explained, we are already in talks with an overseas consultant who managed the carbon credits for only plastic recycling company overseas.

Pramod Bhatt

So it is not very clear?



*Ganesh Polytex Limited
June 8, 2011*

- Gopal Agrawal** Yeah it is not very clear that how we will get, as there are lot of technical things and barriers.
- Pramod Bhatt** No as compared to your overall revenue it is not really very significant the figure that you had mentioned, so my other concern is if you say that the prices are coming down, last time you had said that the discount between PSF and RPFS had gone up because people are not willing to pay such a high price. But PSF prices did move up, now if PSF prices are coming down is the discount narrowing or are you still facing the same discount?
- Gopal Agrawal** Yeah the discount is narrowing with the falling prices of virgin PSF.
- Pramod Bhatt** What would be your expected capacity utilization for your PSF plant?
- Gopal Agrawal** Going forward we are expecting our capacity utilization at about 80% to 85%.
- Pramod Bhatt** And what is the price of fiber currently maybe by end of May if you can give me a rough price estimate?
- Gopal Agrawal** Currently prices have come down to by about Rs 70 to Rs 75.
- Pramod Bhatt** But given that if I'm not mistaken the new capacity had come in October 2010, right?
- Gopal Agrawal** Right.



*Ganesh Polytex Limited
June 8, 2011*

- Pramod Bhatt** So you will have growth but the growth which we saw as compared to March, the next two quarters are likely to be weak on the margin front and as well as the revenue?
- Gopal Agrawal** In the Q3quarter, there is installation of additional capacity of 18,000 tonnes. The volume growth will be there but the top-line may be affected.
- Pramod Bhatt** But you have a current EBITDA margin of about 12.5% this you are saying for FY11 you have recorded a EBITDA of around 12.5% where as in Q4 FY11 your EBITDA is already down to 11.7%. So in your estimate would you be able to maintain about 12% EBITDA for FY12?
- Shyam Sharma** This year we would be able to maintain but in a particular quarter it may be slightly less or more.
- Pramod Bhatt** I am saying for the full-year FY12?
- Shyam Sharma** We would be maintaining it or it may be better.
- Pramod Bhatt** 12%?
- Gopal Agrawal** Yeah 12%.
- Pramod Bhatt** And your tax charges are significantly lower in the fourth quarter as compared to earlier ones. could you just take us through what is your expectation of tax rates for FY12?
- Gopal Agrawal** We are paying the minimum alternate tax. The normal tax is only because of the profits on Kanpur units, there is no tax impact of our Rudrapur unit operations.



*Ganesh Polytex Limited
June 8, 2011*

- Pramod Bhatt** So you will be under MAT for FY12?
- Gopal Agrawal** Yes.
- Pramod Bhatt** For the yarn you're expecting approximately how much capacity utilization?
- Gopal Agrawal** We are already taking more than 100% in yarn.
- Pramod Bhatt** This 80% to 85% what you have indicated in fiber will be for both your units right?
- Gopal Agrawal** Yeah both of our units.
- Pramod Bhatt** On an overall 57,600 tonnes capacity you will be operating at 80% to 85% utilization?
- Gopal Agrawal** Yes.
- Moderator** Thank you. The last question is from line of Pritesh Vora from Equinam. Please go ahead.
- Pritesh Vora** Good afternoon. Sir my question is your putting 125 crores CapEx and you are putting the spinning and the spindle capacity is that the correct information?
- Gopal Agrawal** Yeah that's correct.
- Pritesh Vora** So basically you're going into the vertical to make yarn?
- Gopal Agrawal** Yes.



*Ganesh Polytex Limited
June 8, 2011*

- Pritesh Vora** On 125 crores of CapEx what kind of turnover you can expect from yarn?
- Gopal Agrawal** There is a forward integration and value addition, so there is not much addition to the turnover but it would add up to margins. We are expecting additional turnover around 125 crores.
- Pritesh Vora** So that's the turnover you are considering, the value addition turnover or you are considering as a total turnover?
- Shyam Sharma** Value addition turnover, total turnover means the value addition will be already added.
- Pritesh Vora** Because anyway instead of selling RPSF you will be selling yarn?
- Gopal Agrawal** RPSF will be consumed as raw material in the spinning unit, that will be backward integration. So that would not be counted as sales in our books. That would be treated as transfer of materials. Suppose if we are selling RPSF of Rs 80 to spinning unit and the spinning unit is selling the material to Rs 140, so Rs 140 will be added to the turnover but Rs 80 will be deducted from the turnover.
- Pritesh Vora** So that's the additional turnover increase you're saying what will effect?
- Gopal Agrawal** Yes.
- Pritesh Vora** One more question sir, regarding your collection you mentioned one statement that last quarter the raw material prices have doubled and still you're able to maintain EBITDA, I could not reconcile



*Ganesh Polytex Limited
June 8, 2011*

that if your collection price of the raw material doubles, is your selling price also has gone up in similar proportion?

Gopal Agrawal

Yeah selling prices also increased significantly.

Pritesh Vora

Recently Reliance Industries also mentioned that they are collecting large number in their annual AGM, they are collecting large number of PET bottles and all that from the weaker section of the society. So is the increase in the raw material prices into this additional newcomer Reliance coming in the market or what do you see?

Gopal Agrawal

Reliance is already in this market since last 7-8 years. But the prices have gone up because of the extraordinary situations in the last quarter which I have explained earlier.

Pritesh Vora

So you don't see any threats to your business model regarding collecting this PET compared to a strong company coming and doing the same business?

Gopal Agrawal

No we are having our own collection system. We are expanding our collection system so we don't have any threat.

Pritesh Vora

You mentioned about 30% CAGR five years you are saying 1000 crores revenue, these additional revenue will come by way of backward integration going into the yarn or what is your plan for this 30% CAGR?

Gopal Agrawal

Our plan is for expanding the recycling capacity and going forward for value-added down stream products and also going forward into certain other areas which we are looking for and studying.



*Ganesh Polytex Limited
June 8, 2011*

- Pritesh Vora** Value added product means going up front, spinning and all that?
- Shyam Sharma** Technical textile, geo textile like this.
- Pritesh Vora** Right I just want to understand sir because our turnover right now is 291 crores as you are mentioning the additional 125 crores of additional turnover will require additional 125 crores in CapEx. So if you go downstream if you go into that it will be a CapEx intensive, so if you consider same proportion then 1000 crores will require a lot of CapEx to be put into the company?
- Gopal Agrawal** Yeah we would be requiring the sizeable CapEx. It is the mix of forward integration as well as capacity enhancements and other products.
- Pritesh Vora** And what is the market size like if you don't do the downstream you increase the number of collection, you need to do your conversion which you're good at .What can be the headroom in the market, how far you can grow, is the market is stabilized or you can grow further?
- Gopal Agrawal** Actually recycled fiber is basically a substitute of virgin fiber and the capacity of virgin PSF is more than 1 million tonne in the country as against the recycle fiber capacity which is about 2-2.5 million tonne so there is enough headroom available.
- Pritesh Vora** You are saying that total recycling capacity available is around 1 million tonne?
- Gopal Agrawal** No virgin PSF capacity is more than 1 million tonne.



*Ganesh Polytex Limited
June 8, 2011*

- Pritesh Vora** You mean to say we're going production of 1 million tonne but we are recycling only 0.2 million tonne?
- Gopal Agrawal** Yeah.
- Pritesh Vora** So there is a 0.8 million which never comes for recycling, is that the way?
- Gopal Agrawal** No I'm comparing the capacity of recycling fiber vis-à-vis virgin fiber. Virgin fiber capacity is more than 1 million tonne and the recycling capacity is 0.2 million tonne so there is enough headroom for capturing the market of recycling in the country.
- Pritesh Vora** I understood Sir but when there is a virgin fiber going for a particular use after it gets scrap then only it will come for recycling. So as far as the recycling market is concerned what is the headroom, suppose you have to open number of centers more how big this market is, what is the total capacity?
- Gopal Agrawal** Actually the PET bottles are the only food grade plastic material and with the changing lifestyle and awareness among the people more and more consumption of PET bottles is increasing. So the PET bottles market is increasing more than 10% per annum. So the quantum of waste is increasing.
- Pritesh Vora** So as the market grows your collection also will grow, I just want to understand ,we already have penetrated enough that there is no recycling left or there are some more distribution centers to be opened or there are some more collection centers to be opened which will increase the collection efficiency? Right now whatever



*Ganesh Polytex Limited
June 8, 2011*

center your collecting, is there any way you can grow by opening number of collection centers to collect more and more wastage or you have penetrated enough and there is no more, the only growth is the annual growth rate of recycle material?

Shyam Sharma It is not very easy to open a collection center because it is totally on cash purchases, cash purchases is a very sensitive matter you have to keep a very dedicated person, dedicated franchisee and then watch on the quality and there is raw material with the dust and with the water and with other liquors, liquids and medicines and anything with it. So that is a very sensitive purchase .you have to develop a trained person and then only it will increase so we're going very systematically, since our 15 years effort we have been able to get our quality developed collection systems.

Pritesh Vora Right, so you're saying if there is a more organization man power available and more probably cash available you can collect more is this the way to put it?

Shyam Sharma No we have to create a very dedicated team for it. It is very important here because otherwise they can collect anything and that becomes a total waste.

Pritesh Vora So is it a right way to put it that 10% annual growth rate for the collection like whatever collected material you are now collected?

Gopal Agrawal There is a consumption of more than 5 lakh tonne PET Resin in the country which is coming in the form of waste PET bottle and the recycling capacity is half of that consumption. So there is enough room left for collection of waste.



*Ganesh Polytex Limited
June 8, 2011*

- Pritesh Vora** How many collection centers we operate?
- Gopal Agrawal** We are operating about 25 collection centers.
- Pritesh Vora** And in next 2-3 years plan, do we plan to increase this 25 to some number or we are done with, we will not increase the collection centers?
- Gopal Agrawal** We will open new collection centers.
- Pritesh Vora** And that will be how much sir in 2-3 years of time this 25 number will reach what?
- Shyam Sharma** It will depend basically on the systems development in which we have to train the people first, this is under process and so when we find a right place and right team decided then we will start looking. So it is not with a particular number of centers today, it will be minimum 4 to 5 center we will try to increase every year. But we can't confirm that this will be positively done.
- Pritesh Vora** Right instead of putting a heavy CapEx in it because if you go a downstream side we will increase the margin but the company will require a lot of capital. So is there any way you can grow without putting any capital?
- Shyam Sharma** There is a problem. We are facing problem with the persons, management is the basic person. Capital is not a big problem here.
- Pritesh Vora** People is a key?
- Shyam Sharma** Dedicated team basically.



*Ganesh Polytex Limited
June 8, 2011*

Moderator Thank you. Ladies and gentlemen that was the last question. I would now like to hand the conference to Mr. Shyam S Sharma for any closing comments.

Shyam Sharma Thanks to all for participating in this conference call. We really appreciate the queries raised by our valuable investors as we saw the better insight into our business and one more thing I would like to say we invite the advices from the participants and investors for better corporate governance and better disclosures in annual reports and all those things. Thank you.

Moderator Thank you. Ladies and gentlemen on behalf of Mutual PR that concludes this conference. Thank you for joining us, you may now disconnect your lines.