



GANESHA ECOSPHERE LIMITED

GESL/2022-23/

May 30, 2022

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Sub: Transcript of Q4 FY2022 Earnings Conference Call with Analysts/Investors

Dear Sir/ Ma'am,

Please find enclosed transcript of Q4 FY2022 Earnings Conference Call organized with Analysts/Investors held on **24th May, 2022** post declaration of Audited Standalone & Consolidated Financial Results of the Company for the Quarter and year ended on 31st March, 2022.

Please take the above on record and oblige.

Thanking you,

Yours faithfully,
For Ganesha Ecosphere Limited

(Bharat Kumar Sajnani)
Company Secretary-cum-Compliance Officer

Encl: As above



“Ganesha Ecosphere Limited
Q4 FY2022 Earnings Conference Call”

May 24, 2022



ANALYST: MR. MANISH MAHAWAR - ANTIQUE STOCK BROKING LIMITED

MANAGEMENT: MR. SHARAD SHARMA – MANAGING DIRECTOR - GANESHA ECOSPHERE LIMITED
MR. GOPAL AGARWAL - CHIEF FINANCIAL OFFICER - GANESHA ECOSPHERE LIMITED
MR. PRASHANT KHANDELWAL – SENIOR VICE PRESIDENT - GANESHA ECOSPHERE LIMITED

Moderator: Ladies and gentlemen good day and welcome to the Q4 FY2022 Earnings Conference Call of Ganesha Ecosphere Limited hosted by Antique Stock Broking. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Manish Mahawar from Antique Stock Broking. Thank you and over to you Sir!

Manish Mahawar: Thank you Steven. On behalf of Antique Stock Broking, I would like to welcome all the participants on the call of Ganesha Ecosphere. From the management, we have Mr. Sharad Sharma, Managing Director, Mr. Gopal Agarwal, CFO, and Mr. Prashant Khandelwal, Senior Vice President on the call. Without any delay, I would like to hand over the call to Mr. Gopal Agarwal for opening remarks. Post which, we will open the floor for Q&A. Thank you and over to you Gopalji!

Gopal Agarwal: Thank you Manish. Good noon everyone and on behalf of Ganesha Ecosphere I extend a warm welcome to all of you to the Company’s Q4 and of full year 2022 earning conference call. Thank you for taking the time to join us today. We have with us Mr. Sharad Sharma, Managing Director and Mr. Prashant Khandelwal, Sr, Vice President of the Company.

Start of FY 22 was not at a good note and the joy of heartening recovery during Q4FY21 was short-lived. The financial year started with second wave of COVID-19, which proved to be a more devastating for the country and lives of millions of people were affected badly and at Ganesha we also faced the burnt in the form of production loss, disruption in supply chain and eventually sale numbers. Soon after it, a massive fire broke out to the Kanpur Fibre plant of the Company which destroyed two production lines that were contributing 12,000 tons of PSF on yearly basis.

But I am glad to share that the journey here onwards got better for rest of the year on operational front.

We achieved production of 28,307 metric ton during Q4 FY 2022 and 1,09,788 metric tons during full year, which turns out to be 103% and 99% capacity utilization on quarterly and annual basis respectively. We clocked revenue of 287.38 crore during Q4 and Rs. 1022.35 crore during entire FY 2022 as against Rs. 249.23 crore during Q4 FY21 and Rs. 751.14 crore during entire FY 21 turning into a growth of 15.3% on quarterly basis and 36.1% on yearly basis. The growth in revenue was achieved on the back of higher realizations of PSF and yarn. The average realizations during FY 22 was Rs. 9218 per tonne as against Rs. 7302 per tonne during FY 2021 registering an increase of 26%.

In volume terms, we sold 1,06,806 ton of production against 98,893 tons during FY21, which is a growth of 8% on yearly basis.

The slow-down in China has unfolded good opportunity for us to penetrate in export market and we made an export sale of Rs. 128.32 crore during FY 2022 (Rs. 35.84 crore Q4FY22) which is a growth of 112% over Rs. 60.53 crore export sale during FY2021. Contribution of export sale to total sale reached to 12.5% from earlier level of 7.5 -8%. We could grab the new set of overseas customers on the back of getting approved vendor status of some international brands like Target and Inditex.

During Q4 FY 22, we earned EBITDA of Rs. 11,649 per ton against Rs. 10,608 during corresponding last quarter. On yearly basis, the number is Rs. 10,560 per ton as against Rs. 8,350 per ton during FY 21. Total EBITDA numbers are Rs. 33.08 during Q4FY 22 and Rs. 117.37 crore for whole of FY 22. EBITDA margins are 11.51% and 11.48% for Q4FY22 and FY22 respectively. Though the EBITDA improved in absolute terms, margins were declined in comparison to last year because of increase in input costs as well as manufacturing cost particularly power and fuel cost.

During Q1FY22, company had provided an exceptional loss of Rs 25.13 crore due to fire in Kanpur Plant, which has been reversed in Q4FY22 in view of the reasonable certainty in getting the said loss compensated from insurance company. Excluding the said exceptional gain during Q4 due to reversal of provision for loss made in Q1, Company earned profit after tax of Rs. 19.82 crore during Q4FY22 and Rs. 69.55 crore during entire financial year 2022 registering a growth of 53.90% over FY2021.

In terms of cash flow, during FY 2022, company generated Rs. 76 crore from operations which was mainly used to fund the ongoing project in Warangal. Company also brought down its cash cycle from 105 days to 75 days during the year.

Now I would like to request Prashant to through lights on the ongoing projects of the Company.

Prashant Khandelwal: Thanks Gopal and good afternoon to everybody.

Now coming to the ongoing projects of the Company, we would like to share progress in implementation of the projects. At Warangal, we have started the commissioning of the Recycled Chips plant and it will start the production by July, 2022. Fibre and FDY plants are progressing well and expected to start by September. We faced a lot of hindrances in implementation of Warangal project due to COVID related frequent lock-downs and disruptions in supply chain of critical equipment specifically electrical and electronic parts. We are still facing big issues in terms of timely availability of electrical and electronics parts not only from China and overseas suppliers but also from domestic suppliers as they are pushing their delivery schedules several times. Travel of Chinese Engineers for plant erection is also an issue and the Fibre plant is being erected by us under guidance from Chinese engineers over online platforms which is taking unusual time and delays. All these factors made the implementation of project somewhat challenging and caused some delays to scheduled implementation.

At Nepal, we have started the Washline and commenced the production. We are hopeful in getting this project to operate at full capacity by August-September, 2022.

To seize the upcoming opportunity where demand would be emanating for quality products in recycled rigid plastic (HDPE, PP etc.) segment to fulfil EPR liability of brand owners and manufacturers consuming plastic packaging for their products, we, at Kanpur unit, are working on a pilot recycling line for rigid plastic which would be operational by July end. The capacity of this pilot plant is 300 tons per month. Post successful implementation, we would ramp up the capacity to 1,000 tons per month during current financial year itself. The estimated project cost would be around Rs 30 crore which would be funded through proceeds from insurance claim expected to be received by July, 2022.

Between our Rudrapur facility and Bilaspur facility, later is commanding superior margins in the market because of better quality and value added products while cost of production is almost the same between the two plants. From market point of view, RPSF manufactured in Rudrapur plant is categorized as medium tenacity fibre and those manufactured in Bilaspur facility (and also to be manufactured in Warangal plant) is called high tenacity fibre. Given the price and cost matrix, medium tenacity fibres may not sustain the margins in future while selling in the market. However, with our vast experience, we are successfully running our spinning unit consuming 100% of our medium tenacity fibre and this unit is making good margins. Further, we were running a yarn spinning unit on job work which was contributing a production of 1500-1800 annually to us. The agreement for job work has come to an end during March, 2022. So we are also short in market by that much quantity.

So sensing the future course of industry as well as to increase our margins from medium tenacity fibre segment, we have consciously decided to put up a spinning unit with a capacity of 34,000 spindles at Temra (Bilaspur), adjacent to our existing unit. It would be a green field project with an estimated project cost of Rs 230 crore and it would be implemented over a period of next 18 months. At optimum capacity utilization, unit would be producing around 12,000 tons of yarn valuing about Rs. 250 crore. We would be manufacturing mélange and doubled/ fancy yarn, using our medium tenacity fibre, with an estimated EBITDA margins in the range of 25-30% with target ROE of 18%.

We would like to clarify that due to market dynamics turning adverse on medium tenacity fibres in future, we are moving on strategically for yarn spinning unit in sustaining the margins. Recycling is and will remain our core focus area and all of our future expansions would primarily be in that direction only. It is pertinent to mention that we are very bullish about the future of recycling industry not only in India but globally. Given the pressing need of environment protection, focus is being shifted for resource optimization instead of creating new resources. New regulations are being implemented globally mandating the blending of recycled products with virgin products and responsible organizations are pledging themselves for making their products environmental friendly. In India also, regulations have been introduced whereby all the brand owners and manufacturers are required to have 30% recycled contents in their plastic

packaging from FY 2025-26 and this limit would be extended by 10% every year till it reaches to 60%, i.e., by FY 2028-29.

So, we are confident about the upcoming exponential growth in this industry and making ourselves geared to be and remain front-runner.

As we expand our operations, we aim to move towards sustainable efficiency. To that direction, in our Warangal facility we have equipped ourselves to recycle 90% of water required in our operations and only 10% fresh water would be needed. We are also setting up an ETP plant which would be on Zero liquid discharge principle. All of our future projects would be working on the same set of values as well. Our existing operations are already meeting 17% of their energy requirements through roof-top solar panels and we have also set up group captive power arrangements with Amplus RG Solar in Uttar Pradesh for 17 MW. Additionally, another deal for 14MW solar is in making as we speak which will take the organization's renewable energy mix to more than 50% and make our power costs escalation free for a fairly long period of time.

For capturing the demand for premium recycled products, we are launching a brand "Go Rewise", which symbolizes recycling wisely. The brand is being launched with the vision to close the sustainable loop. Go Rewise is dedicated to conserving resources and establishing sustainability supremacy by efficiently recycling waste products into premium quality products. The brand has been patented and we wish to make this brand a symbol of pride among all our customers. We are in the process of being onboarded by global brands after clearing their social audits. We have already started to use patented DNA technology of ADNAS, USA in our products, wherever required, for physical traceability of our fibre in final finished products. We are confident that the above steps would create a strong brand equity for our products and create a pull demand thereby improving our margins.

With this, we now invite you for asking questions and request the moderator to open the floor for discussion. Thank you.

Moderator: Thank you very much Sir. We will now begin the question and answer session. The first question is from the line of Swechha Jain from ANS Wealth. Please go ahead.

Swechha Jain: Thank you Sir for giving this opportunity. Actually I kind of missed the whole logic that you were trying to explain that why Warangal would do higher EBITDA margins, so I just wanted to understand because currently our EBITDA margins are between 11% to 13% and Warangal we are expecting margins to be 18% to 20% and even in Nepal we have given a guidance of 20% - 25% kind of margin, so I just wanted to understand the whole logic are the products different or how can we have such higher margins there?

Gopal Agarwal: I would like to explain to you we are into the recycling fiber. Basically pet bottles can be converted into three products roughly number one is the recycled polyester staple fiber, number two recycled POY, FDY and number three recycled rPET which is used for making the bottle-to-bottle. So presently we are into RPSF which is the lowest margin among all the three products.

So in Warangal facilities we are going to make all the three products, so the margins are higher in case of recycled FDY and the bottle-to-bottle chips that is how the margins are higher there, number one. Number two we are sourcing the raw material from South where the freight element is higher in case we are transporting it from south to north. So for the Warangal plant we would be sourcing from south itself, we will be getting some benefit in terms of logistics cost over raw materials and for Nepal also we are making the washed flakes and chips there, so the margins are higher because of the lower raw material prices there because there is no recycling facility in Nepal and there is no use of the recycled material itself in Nepal, so all the material is coming to India through illegal way, so we are making this loop formal and legal, so we will be getting the better prices here.

Swechha Jain: So in Nepal we will be making the chips and we will be getting them here for our plant or we are going to sell the chips to other countries from there?

Gopal Agarwal: We can use it for our plant also; we can sell it in the market also depending upon the cost benefit and uses.

Swechha Jain: So the higher EDITDA that we are expecting from Nepal is basis the assumption that we have been using those for our plant here for backward integration or selling those chips the 25% that we are guiding is on what Sir?

Gopal Agarwal: It is on the guidance of consuming the chips in backward integration.

Swechha Jain: For backward integration fair enough Sir. In Bilaspur you said currently we are now having that high tenacity product right, so Bilaspur would you be able to give us margins on the products that come out from Bilaspur vis-à-vis Rudrapur?

Prashant Khandelwal: As far as the quality is concerned you see the Bilaspur facility is having the better technology than what we are having in Rudrapur this is we called third generation recycling plant, the Rudrapur one is the second generation recycling plant, so the quality what we are making in Bilaspur plant is almost equivalent to virgin fiber, so we are fetching good margins or a better pricing from market though the cost of production remains almost similar what we are having in Rudrapur, but with the improved margin from market and all the big spinners like Arvind, Trident and Vardhman we are very well serving those big brands with our recycled products from our Bilaspur unit.

Swechha Jain: So for margins and realization if could you give a number to it like how much higher is it?

Gopal Agarwal: Yes, we are getting Rs.3 to Rs.4 higher realizations in case of our Bilaspur facility that is about 13% to 14% of EBITDA margins in that facility as against that 10% to 11% EBITDA margins in our Rudrapur facility.

Swechha Jain: My another question is the new capex that we are doing so you said we are going to do an asset turn, the revenue numbers that we can fetch out of it was 280 Crores right Sir?

- Prashant Khandelwal:** Yes, it is 250 Crores from our new spinning project which we have announced just now.
- Swechha Jain:** So asset turn is close to one point something right because we are doing a capex of 230 Crores on it right?
- Prashant Khandelwal:** Right.
- Swechha Jain:** I kind of just missed the realization per ton if you could give on that and the EBITDA margins and why it would have an higher EBITDA margins you were explaining the logic but somehow the sound was not clear actually?
- Prashant Khandelwal:** What we are doing in our spinning units we are making only premium quality of yarns we are not working on any commodity products. Even in our existing facility in Bilaspur with 28000 spindles we are making only colored dyed yarns, melange yarns and fancy yarns such as slub, injection slub, etc., so these yarns are having a very good margin as compared to the commodity product of white and black yarn. What is our idea to consume our medium tenacity dope-dyed fiber only in our spinning unit where we can get far better prices and margins than the commodity products of gray and black yarn, so at the existing facility we are making about 700 tons of yarn on a monthly basis out of which 110 tons are being taken to the RT spun yarn which is used as stitching yarn and the rest of the 595 to 600 ton of production is only in melange and dyed polyester spun yarn, so dyed melanges and these fancy yarns are fetching a far better margin than what the commodity yarns are doing, so thereby we are expecting, already in existing unit we are getting a very good margin for those with specialized yarns and in the coming facility also we will go only for these kind of premium products.
- Swechha Jain:** So we do not have any spindles right currently?
- Prashant Khandelwal:** Yes, we have already 28000 spindles which we have installed in year 2011-2012.
- Swechha Jain:** Last question I kind of missed the realization per ton number but I believe there is a drastic increase in the realization?
- Prashant Khandelwal:** Yes, of course because if it is a dyed and spun yarn it would be somewhere between Rs.220 to Rs.240 a kg.
- Swechha Jain:** So are these realization numbers sustainable because I think from last year to this year realizations have gone up significantly?
- Prashant Khandelwal:** Yes of course these dyed and fancy yarns we are selling this in markets since long and the final prices of these yarn remains in this window only.
- Swechha Jain:** Fair enough Sir I have followup questions I will join the queue again. Thank you.
- Moderator:** Thank you. The next question is from the line of Jenish Karia from Antique Stock Broking. Please go ahead.

- Jenish Karia:** Thank you for the opportunity. First question is if you can just help me with the total installed capacity adjusted for the loss of capacity in the Kanpur plant and what would be the potential revenue loss due to that?
- Gopal Agarwal:** Yes we have lost about 12000 ton capacity in Kanpur plant due to fire and the total revenue loss is about 100 Crores from this unit.
- Jenish Karia:** So we are adding higher margin, higher realization capacity at the Kanpur plant going forward and replacement of the capacity which has been lost, so what would be the incremental revenue from the new capacity that we are adding?
- Gopal Agarwal:** No we are not adding, basically the Kanpur plant was the least among all the three plants though we have lost the turnover of over 90 to 100 Crores, but on profitability front we have not lost much. Now we are looking to the market dynamics and scenario we are now not going to reinstate that production lines which have lost instead we are going for putting up another production line which is suitable for making the recycled rigid plastic chips.
- Jenish Karia:** So it will be a higher realization product than the current...
- Gopal Agarwal:** It is having a greater opportunity going forward and certainly would be having higher margin in comparison to the capacity which we have lost.
- Jenish Karia:** Second question is with regards to Nepal facility if my understanding is correct we plan to use the Nepal capacity for captive consumption unless we have a better opportunity in the export market firstly is that understanding correct?
- Gopal Agarwal:** Yes, your understanding is correct.
- Jenish Karia:** So what would be the cost benefit if we import the chips from the Nepal facility and use it captive in the north plant rather than what currently the cost dynamics are?
- Gopal Agarwal:** Basically you see we are getting the raw material cheaper by about 15% in Nepal so that is actually the cost benefit available to us in that facility.
- Jenish Karia:** Around 15% for the tax basis?
- Gopal Agarwal:** In fact tax is also lower in case in Nepal. In Nepal they have provided the tax break of about 12% for the first five years, in five years you will be paying the income tax of only 12% in that facility because of the recycling.
- Jenish Karia:** One last question, so what is the progress, so are there any commitments which we have started receiving for the bottle-to-bottle plant we have set up, our samples being sent for approval any update on that?

- Prashant Khandelwal:** The commissioning will be started in coming week and the team from OEM Austria they are coming in June 1st week, so once the trials are being done and the samples will be tested in different labs and it will be get approved by the buyers also in due course of time.
- Gopal Agarwal:** We are also in talks with the potential buyers, so they are waiting for the samples from plant and after getting the samples approved we will go ahead with the supply.
- Jenish Karia:** So can we expect the revenue to flow in our P&L from second half of the year?
- Gopal Agarwal:** Yes, of course we are expecting the revenues flow from second half.
- Jenish Karia:** Okay I will come back in the queue for more questions. Thank you so much.
- Moderator:** Thank you. The next question is from the line of Nirav Savai from Abakkus Invest. Please go ahead.
- Nirav Savai:** Thanks for the opportunity. Sir would it able to share any capex number for FY2023 post this new spun yarn facility which we have announced?
- Gopal Agarwal:** We are already moving on the Warangal project and we have spent about 300 Crores by March 2022 in that facility so another 125 Crores would be spent in this Warangal facility and apart from this we would be spending about 70 to 75 Crores in the yarn facility in FY2022 and rest of that condition would be done in FY2024.
- Nirav Savai:** So FY2024 we will see about 150 odd Crores behind this Bilaspur facility?
- Gopal Agarwal:** Yes.
- Nirav Savai:** Anything for FY2024 if you could share a little ongoing process?
- Gopal Agarwal:** We are looking for a greater possibility in this recycling sector and so we are working upon various opportunities and things.
- Nirav Savai:** Right got it Sir that is it from my side. Thank you very much.
- Moderator:** Thank you. The next question is from the line of Amit Zade from Ageas Federal. Please go ahead.
- Amit Zade:** Thank you team thank you for the opportunity. What is the current realization for the RPSF and how has that changed versus cotton versus virgin PSF?
- Gopal Agarwal:** You see we are presently getting about Rs. 97-98/Kg which is against 110 to 115 of virgin PSF. The realizations have improved by about 25% in the last one year though the cotton prices have increased multifold. So cotton dynamics is different and the policy dynamics is different, but one thing is that after the cotton has become so much costlier the demand of polyester has increased.

Now most of the spinning units are shifting towards the polyester who was consuming the cotton only.

Prashant Khandelwal: Basically there is a switch from cotton to polyester always happens, when the cotton prices are higher and polyester prices are lower the people are looking for a better opportunity by spinning mills especially in South of India, so now the demand is growing for polyester in most of the cotton units where either they are shifting to polyester or they are blending polyester with cotton to make their product sustainable, so this happens every time when the cotton prices goes high, of course the polyester always get a benefit whenever there is an increase in cotton prices.

Amit Zade: Expectation of crude remaining at higher levels and cotton prices also so where do you see prices of recycled polyester to remain should that further increase so where do you see it settling down?

Gopal Agarwal: Actually the prices are very stable at this time and we foresee the stable prices going forward after even the prices of crude although the situation in short-term is not very clear because of the ongoing war between the Ukraine and Russia and other geopolitical issues, but stability in prices is more or less somewhat more clear.

Amit Zade: Got it, also if you can help me with the yarn revenue for the fourth quarter and the full year, I understand we have almost 10200 tons capacity split between Rudrapur and Bilaspur if you can help me with that number for revenue?

Gopal Agarwal: Sorry.

Amit Zade: Yarn revenues?

Prashant Khandelwal: Yarn revenues they are asking for spun yarn revenues.

Gopal Agarwal: For the fourth quarter it is about 60 Crores.

Amit Zade: For the full year?

Gopal Agarwal: For the full year it is 188 Crores.

Amit Zade: So this is out of the 10000 ton capacity which we have so we have got almost 200 Crores is that correct?

Gopal Agarwal: Yes.

Amit Zade: EBITDA margin in year would be?

Gopal Agarwal: We are actually in 10200 ton where our bifurcation between the two one is 7200 ton is the spun yarn which we are making from yarn spinning unit and 3000 ton is the textile dyed yarn which we are getting from facility in Kanpur, so utilizations and margins are very low in Kanpur yarn

facility which is based on virgin material and in spun yarn our EBITDA margins are about in the range of 16% to 18%.

Amit Zade: So the Bilaspur has 7200 capacity which will be further increased to 17400 with this new 10000 line coming in is that correct understanding?

Gopal Agarwal: About 12000 tons capacity is coming so the aggregate it would be about 19000 tons in the Bilaspur.

Amit Zade: Understood. My next question is I think there are multiple capacity expansion projects going on maybe FY2023 also we will see various projects coming in at different times, so for FY2024 if you can help us so Warangal should add about close to 600 Crores the topline?

Gopal Agarwal: Yes, Warangal we are expecting 600 Crores topline from there.

Amit Zade: Nepal should do 75?

Gopal Agarwal: Nepal is about 75 Crores.

Amit Zade: This new spinning?

Gopal Agarwal: 250 Crores from this new unit.

Amit Zade: Next is HDPE also so that should do how much?

Gopal Agarwal: At a full capacity of 1000 ton per month it would be around 90 Crores to 100 Crores.

Amit Zade: Another 100 Crores, so close to 1000 Crores additional in topline for all these new projects and margins you say for Warangal still we are maintaining this 25% margin is that correct and Nepal at 18% and yarn you have also said 15% to 18% and what about HDPE?

Gopal Agarwal: HDPE pilot plant we are going to start in the next one or two months, so the expected cost benefit and margins matrix would be clear once we are ready with the product and marketing it, so we are not able to give you the exact numbers but of course we are expecting it would be a more than 20% EBITDA kind of business.

Amit Zade: So is it fair to assume existing business doing 1000 Crores and new business is doing another 1000 Crores by FY2024 with far superior EBITDA margin?

Gopal Agarwal: Yes.

Amit Zade: What would be the peak debt in this case for FY2023 closing?

Gopal Agarwal: We are looking for the top debt would be around 70% of our net worth.

- Amit Zade:** Lastly how has the realization of bottle-to-bottle grade you are having?
- Gopal Agarwal:** In the international market the bottle-to-bottle prices are much higher than the virgin chips prices. So virgin prices are hovering around Rs.110 to Rs.120 kg so we are expecting the realizations of about Rs.120 to Rs.125 at the same level the virgin prices are there we are not pricing in the premium just now.
- Amit Zade:** So premium should be how much in normal scenario?
- Gopal Agarwal:** It will depend upon when we would be ready with the product and the customers which we are targeting.
- Amit Zade:** Okay I understood thank you thanks a lot for the answer. Best of luck.
- Moderator:** Thank you. The next question is from the line of Akshay Kothari from Envision Capital. Please go ahead.
- Akshay Kothari:** Thanks for the opportunity. Sir what would be our capacity utilization in FY2022?
- Gopal Agarwal:** On overall basis we are having 99% capacity utilization, but in Q4 our capacity utilization was 103%.
- Akshay Kothari:** Also what would be the tax rate going forward because I am assuming that I think Warangal facility would be having some tax benefits?
- Gopal Agarwal:** Yes in the existing operations we are having the tax rate of 25.17%, but for the Warangal project and for the spinning project which we are planning we would be having a tax rate of 17%.
- Akshay Kothari:** Going forward how could we look at the working capital so how are we expecting improvement in it?
- Gopal Agarwal:** We have got a lot of improvement in the current financial year, the working capital cycle has come down to 75 days because of so large project basket as well as the holding period for the raw material there is not much room available for bringing down the working capital cycle further though 5% to 10% is always possible.
- Akshay Kothari:** You did also mention about Arvind and Vardhman we are also suppliers to them so is it possible for them to backward integrate or what is stopping them from doing backward integration?
- Prashant Khandelwal:** Whenever you are coming with the different products you need to have a number of lines to be installed. So yes of course anybody is open to go for a backward integration but it would be better to tell you that still many of the spinning units who have came up with their one or two facility for recycled fiber they are buying a lot of premium products from our company, so it is not that you are creating a facility it is a R&D over the period of last 30 years what we have done and the products which we are making on our different lines in different plants, so it is the

expertise where you are getting a good number of buyers, so yes anybody can come with backward integration but still they need many number of products which would not be possible in one or two lines.

Gopal Agarwal: I would like to further highlight that we are having about 500 kind of products in our basket which are available for every kind of application to the end consumer number one. Number second we are on the preferred vendor list of some brands for which we are making their product, so it is also a compulsion for them to buy from us.

Akshay Kothari: In India we would be the only company doing this sort of recycling work or is there any competitor?

Gopal Agarwal: The competitors are also there apart from us there are almost 35-36 units are there in recycling of PSF.

Akshay Kothari: What would be our export revenue this year?

Gopal Agarwal: In this year we clocked in Export of 128 Crores.

Akshay Kothari: Which are the geographies we are seeing traction?

Gopal Agarwal: Our biggest buyer is the European Union.

Akshay Kothari: I am really sorry that this is very new to me so what could be our dependence on crude so are we somehow dependent on crude our end product?

Gopal Agarwal: Yes of course our end product is benchmark against the virgin PSF which is a derivative of crude and the prices of crude make some impact on the prices of virgin PSF, so indirectly we are also impacted by the prices of crude.

Akshay Kothari: Okay thanks a lot Sir that is it from my side and all the best.

Moderator: Thank you. The next question is from the line of Manish Mahawar from Antique Stock Broking. Please go ahead.

Manish Mahawar: I have a couple of questions. In terms of the yarn capex, you have given guidance around 250 odd Crores of revenue and EBITDA margin of 25%-30% right, so this is incremental because this is a forward integration plan?

Gopal Agarwal: Yes I am talking about the incremental margins of spinning unit.

Manish Mahawar: What is the ROCE. Mr. Prashanth has highlighted at the start of the call this project?

Gopal Agarwal: Yes, we are looking for the ROE of about 18% from this plant.

- Manish Mahawar:** In terms of new capex or look upon to expand so what is the threshold of ROE, ROCE or margins we go ahead with the capex?
- Gopal Agarwal:** You are asking about the ongoing projects or you are talking about the new projects?
- Manish Mahawar:** Any new Capex if we do.
- Gopal Agarwal:** Any new capex which we are now targeting we are targeting only on those projects which is having at least 18% to 20% ROE kind of business.
- Manish Mahawar:** In terms of our existing products because we have now multiple because earlier we used to be RPSF and yarn now we have two or three new products in the south plant, in all these four, five products but which product you think going forward we can further expand our capacity?
- Gopal Agarwal:** Going forward we are sensing that our B2B chips business would be the most accelerated kind of product in the market.
- Manish Mahawar:** Which is a bottle-to-bottle you are talking right?
- Gopal Agarwal:** Yes, because of the government regulations.
- Manish Mahawar:** In terms of these bottle-to-bottles how the regulatory approvals we need to take? what is the status and how sensitive to take this regularly approval or difficult to get these approvals?
- Gopal Agarwal:** Actually there are three types of approvals are required; for the US market it is the US FDA approval and for the European market it is the EFSA approval and for India it is a food safety and FSSAI approval, so we are already working on the approvals from these bodies and for more guidance Mr. Prashant over to you.
- Prashant Khandelwal:** You see the technology which we have installed in Warangal plant is already USFDA approved technology and the US FDA has already given the mandate for that technology and with that EFSA yes already we have submitted all our documents so that the position has been filed with that and it is under operation stage and we are very much positive to get it in the next couple of weeks, some positive feedback from EFSA. Taking the approvals from FSSAI Food Safety in India what they have mandated that any technology which has been approved by USFDA or EFSA would be okay for them to be implemented here, the only further approvals would be required for the product made out of that facility, so yes we have already prepared all the applications and documents and waiting for the trial productions to be started in next month, once the trial production has been started we have to get our products tested in NABL accredited labs and thereafter we will move with our application with FSSAI.
- Gopal Agarwal:** I would like to add further that until now India was not having any standards or the specifications for consuming the recycled chips for packaging of food products. So after the regulations the plastic waste management rules have come up and the regulations has been mandating the packagers to use 30% or 40% of the recycled chips, now the food safety and standard council of

India has also come out with a set of specifications to be followed for using that recycled chips in food grade packaging, so that is why the approval is required from FSSAI. We are in the process of taking the approval from FSSAI, which would be expected to get by end of June.

Manish Mahawar: This is the one of the reason, we have imported the machinery or taken machinery from the Europe region for bottle-to-bottle plant?

Prashant Khandelwal: Yes we have taken only, USFDA has approved two, three technology across the world only for this use of recycle it in plastic pet packaging so that is why we went to Europe for this particular thing.

Manish Mahawar: At the opening remarks, you highlighted an inspection or audit by the global customer or a supplier like Target Group so this is a new to us or this already prevails for our existing business?

Gopal Agarwal: No, we have not been on their vendor list so to be onboarding for their vendor list you have to go through the successful social audit which is being conducted by them on all of their vendors plant, so last year they conducted the social audit and we cleared, so now we are onboarded with them and we are getting really a good business through this process and we are now in the process of getting the approval from other brands also and most of the brands are having their own set of social audit, so some of the social audits are going on also at present, so our target is to get onboarding on more and more brands, so we can get the good demand from their converters and manufacturers for them with good margins.

Manish Mahawar: So this is a basically approval by the global customer which are sourcing the product from our customer right so they are vendors getting approval?

Gopal Agarwal: What happens most of the global brands do not manufacture the products their own they just specify the vendor for different products and suppose Vardhman is making the yarn for Inditex so we see on the approved list of Inditex so the Vardhman will be sourcing materials from us only or they can store the material only from the approved vendor so that is the benefit.

Prashant Khandelwal: Yes you are correct that most of the brands what they do they approve a complete whole supply chain for all their products to be used in all the supplies made by the final vendor to them. So yes second, third stage of vendors are also being approved by them, so the whole chain works like this only for the big brands globally.

Gopal Agarwal: Going forward the scenario is changing rapidly and now everybody is looking for the ESG compliant and more environmental friendly business enterprises. So to that end we have already moved in and therefore as our business is already recycling business that is environmental friendly but apart from that we are also trying to consume more green energy, to conserve the water, to conserve the carbon, so to be a more vibrant green organization so our group can be matched easily with the international brands where we can be the preferred vendor.

- Manish Mahawar:** Last one from my side. One of the comment on the presentation, we are introducing or launching our own brand so how this brand will help our domestic business or international business?
- Gopal Agarwal:** See the brand creates the brand equity in the market and the people identify the products with the brand so all of our new products would be coming under the goal-wise plant only, so the brand itself speaks about the ESG compliant products of the company.
- Prashant Khandelwal:** We have a single source of raw material that is PET bottle so this PET bottle can be converted into different end products such as recycled fiber then above that it comes to recycling FDY, recycle POY then again it comes to bottle-to-bottle and even in each product of recycled PSF, POY and FDY there are premium segments. So the story behind this new brand Go Revise is to recycle wisely, so yes we can convert these PET bottles either a very inferior product with a very low margin or we can convert it into a very premium product with a very good margin, so the whole story behind this new brand is to recycle wisely.
- Manish Mahawar:** That is it from my side thank you. Thanks and all the best Sir.
- Moderator:** Thank you. The next question is from the line of Deepak Poddar from Sapphire Capital. Please go ahead.
- Deepak Poddar:** Sir just wanted to understand any kind of guidance on the revenue margin we have given for FY2023?
- Gopal Agarwal:** We are already at 1000 plus turnover in FY2022 and that will be maintained and we are expecting to start our entire project by September along with our Nepal unit, so we would be looking for five to six months production would be there in this FY2023 so we are looking about 1300 to 1400 Crores type of turnover.
- Deepak Poddar:** So additional 400 Crores the revenue, so 300 Crores coming from Warangal and maybe 50 to 75 Crores coming from Nepal right?
- Gopal Agarwal:** Yes, Nepal and for south the entire plant is operational by September so in Warangal plant we may take one or two months further for ramping up the capacity, so in Warangal plant we would be looking for a three to four month results and in Nepal of course we would be getting the almost six months result.
- Deepak Poddar:** Understood and what is the margin we are looking at?
- Gopal Agarwal:** Yes, margins both the new facilities are having the higher margins in comparison to our existing business.
- Deepak Poddar:** Understood that is it from my side. Thank you.
- Moderator:** Thank you. We take the last question from the line of Swechha Jain from ANS Wealth. Please go ahead.

- Swechha Jain:** Just a followup. You said currently in the Bilaspur the spun yarn capacity is 7200 tons with an EBITDA margin of 16% to 18% and now we are adding another 12000 tons capacity with an EBITDA margin of 25% to 30%, so just wanted to understand that if it is the same spun yarn that we are expanding then how would the additional 12000 tons give a higher margin of 25% to 30%?
- Gopal Agarwal:** It is because we would be targeting the products which we are not able to produce in existing facilities because of the capacity constraint, so the products which we are planning to manufacture in new facilities would fetch better prices.
- Swechha Jain:** So currently at Bilaspur we are doing dyed yarn and what I understand is at the expansion that you are doing we will be having a premium quality yarn right what you were explaining earlier?
- Prashant Khandelwal:** You see in the existing facility we are confined to source yarn only and in the new facility we are coming up with a capacity to produce finer counts where we would get a better realization as well as better margins also. So the current production capacity is in the range of average 18 counts to 19 counts while in the new facility we can produce some finer counts and the average capacity would be around 24 counts to 25 counts so that leads to a better realization as well as a better product portfolio for getting a good margin.
- Swechha Jain:** Sir one more followup was could you just explain again in that bottle-to-bottle grade what we are doing, is that bottle-to-bottle grade are going to be manufactured from Warangal I am just bit confused?
- Prashant Khandelwal:** Yes it is to be made at Warangal only bottle-to-bottle grade chips and it will be used by mixing this in the virgin pet chips for making again the bottles.
- Swechha Jain:** For making those recycled bottles right?
- Prashant Khandelwal:** Yes of course because it is mandated by the government also that from 2024-2025 everybody has to consume 30% of recycled material in their packaging. So yes we are in discussion with big brands also because they want to start this from the current fiscal itself.
- Swechha Jain:** Last small clarification the new line at Kanpur that we are coming up with because we are not reinstating the old line so that new line is going to cater to the food packaging industry?
- Prashant Khandelwal:** You see this in plastics there are several different products one is PET and one is rigid plastic from polyethylene, polypropylene so in Kanpur we are coming up with other rigid plastics than PET, so all HDPE, PP polypropylene and this is a very vast field you see the rigid plastic consumption in India is about 10 times of what we are having of PET, so you can just imagine the opportunity there in the recycling of rigid plastic, but yes we have to work harder for different R&Ds and making a intact supply chain of each type of plastic that is coming to the facility so you can make a better product. There are several sort of recycling facilities where you can mix all the plastic and make a very poor quality of product where you would not get margin more than

3%, 4%, 5% and that too they are being done in an unorganized sector across India, already there are thousands of units who are recycling those plastics but those are all unorganized sector units so yes you have to work harder for the supply chain so that you can get a specific type of plastic coming to your facility where you can convert that plastic into a premium product which can be supplied back to the big brand so we are working on that because we want to create a premium quality product out of that plastic also. Of course it will fetch a good margin over the period of time but yes it will need a big asset to be done in this field.

Moderator: Thank you. As there are no further questions I now hand the conference over to Mr. Manish Mahawar for closing comments.

Gopal Agarwal: Mr. Sharad Sharma will make some concluding remarks.

Sharad Sharma: Greetings to the partners. I would like to address some of the questions asked by the participant's regarding backward integration by customers like Arvind Mills and Vardhaman Mills, crude price movements and competition with regards bottle to bottle chips. We have many years of experience and backward integration by customers will take time to get that level of experience. Bottle to Bottle market in India is a developing market. In our discussion 5 years ago, I used to highlight that whenever food grade Bottle to Bottle will be allowed in India, there will be huge shortage of Raw Materials as same plastic is used for consumption. That situation can be witnessed today. In future when plastic bottles will be used for making Bottle to bottle, there will be scarcity of Pet bottles for fiber and spinning. Whatever bottles will be available, will be used for premium quality only. The fire loss at Kanpur plant gave us an opportunity to think and enter in other plastics. We currently sell other plastics as waste. Going forward, we plan to use it as raw material and converting the same in value added products. From spinning mill the margin at existing Rudrapur plant will increase by atleast 5%-7%. Spinning mill is a forward integration strategy. 32,000 spindles capacity has been planned in addition to present capacity of 28,000 spindles to consume our medium tenacity fiber. Fluctuation in price of crude and spinning cotton has always been there. Whenever there is a movement in market, we shall be affected/benefitted for the time being. Competition will always be there. Strategy will be focused to beat competition. Best of luck to everybody.

Manish Mahawar: Thank you. Ladies and gentlemen on behalf of Antique Stock Broking that concludes this conference. We thank you all for joining us. You may now disconnect your lines.

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