



GANESHA ECOSPHERE LIMITED

GESL/2023-24/

August 16, 2023

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Sub: Transcript of Q1 FY2024 Earnings Conference Call with Analysts/Investors

Dear Sir/ Ma'am,

Please find enclosed herewith transcript of Q1 FY2024 Earnings Conference Call organized with Analysts/Investors held on **August 8, 2023** post declaration of Unaudited Standalone & Consolidated Financial Results of the Company for the quarter ended on 30th June, 2023.

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
Q1FY2024 Earnings Conference Call”

August 08, 2023



ANALYST: MR. MANISH MAHAWAR - ANTIQUE STOCK BROKING LIMITED

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

Moderator: Ladies and gentlemen good day and welcome to Ganesha Ecosphere Limited Q1 FY2024 Earnings Conference Call hosted by Antique Stock Broking Limited. 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 Nirav. On behalf of Antique Stock Broking, I would like to welcome all the participants for the call of Ganesha Ecosphere. Today, we have Mr. Yash Sharma, Director – Ganesha Ecopet, Mr. Gopal Agarwal, CFO, and Mr. Prashant Khandelwal, Senior Vice President from the management. Now I would like to hand over the call to Mr. Agarwal for opening remarks. Post which, we will open the floor for Q&A. Thank you and over to you Mr. Agarwal!

Gopal Agarwal: Thanks Jinesh and Antique stock broking for hosting us. Thanks to all the participants for taking the time to join us today and on behalf of Ganesha Ecosphere I extend a warm welcome to all of you at the Company’s first earnings conference call of FY24. I hope all of you might have had a chance to look into our quarterly numbers and investors’ presentation already available on the exchanges.

Textile sector is amongst the worst hit due to downturn in western world persisting since last 15 months. Exports of textile sector is constantly declining. During June, 23 quarter, shipments of manmade products saw a 17.22% decline. Slowdown in Europe and US prompted the dumping from China in domestic market which led to demand and pricing pressure on domestic suppliers. Prices of yarn and fibres slid and affected the textile industry top and bottom line.

Yarn spinning sector is major contributory to our revenues, we had to face the heat, which came to us in the form of lower demand as well as drop in prices.

On standalone basis, during June quarter of FY24, Company’s production volume was at 27,030 MT. Sales volumes were declined by 8.6% to 24887 MT as against the sales volume of 27,241 MT achieved during Q1 FY23. Average sale prices declined by 17% during the period. Revenue from operations during the quarter came at Rs. 231.82 crore which is down by 21% from corresponding last quarter. Due to slow down in export markets, company’s exports were also hit and it made an export sale of 18.02 crore as against Rs. 33.94 crore during June, 22 quarter.

Due to lower volumes and slide in prices during the quarter, our EBITDA margins came down to 7.4% as against 9.4% during corresponding last year and 11.4% achieved during FY23. In absolute terms, EBITDA during the quarter was Rs. 17.18 Crore. Per ton EBITDA dropped to Rs. 6,355 as against Rs. 9,921 earned during the corresponding last quarter. Company incurred an inventory loss of Rs 5 crore during the quarter. Raw material prices were adjusted downward in comparison with corresponding last quarter but pace was not aligned with fall in sale prices. All the above factors resulted into drop in PAT to Rs. 11.61 crore.

On group level, though some of the product lines were commercially operational during last quarter March, 23 and June, 23 quarter, ramp up could not happen as expected. BIS standards for consumption of Rpet granules in food grade packaging was notified during May, 23 while we were expecting it much earlier.

Our products testing and trials at brands level also took more than expected time period due to various complexities involved in audits and product approvals. Global and domestic slow down in demand also contributed in slower ramp up of production volumes.

Capacity utilization was at around 30% in Warangal facilities but sales volumes were at even more lower level. Nepal facility was ramped up albeit at slower pace and it reached to 50% capacity utilization level during the quarter. So, on consolidated level, PAT was dropped to Rs. 3.45 crore during Q1FY24. Major contributing factors in drop in PAT at consol level is interest and depreciation of subsidiaries, which could not be offset due to lower level of operations. Now I will hand over the call to Mr. Yash for his comments on the operation for the company.

Yash Sharma:

Thanks Gopal and I extend my warm welcome to all the participants. This quarter was not as per our expectations due to the reasons explained by Mr. Gopal. In fact, we have not seen such gloomy market environment in last several years. However, dust is now being settled and demand and prices have seen some revival from later part of July, 2023. We are expecting to do better in second quarter on standalone basis and in view of the festive season and other contributing factors we are hopeful to operate at normal level from Q3 onwards as we were doing in the past. In Rpet B2B chips, we have finally got the much awaited order from one of the Coke's bottler and things have started rolling out with more orders are on cards. We are also very closer in getting final approvals from some more brands and hopeful in getting boarded with them in coming quarter. One more production line of B2B chips is to be installed by October-November, 2023 and it is expected to start contributing from last quarter of FY24. FDY production line is also streamlining and we are expecting to get better results from Q3 onwards. PSF line is going to start from September end and so its operations will also reflect from next quarter onwards. In all, we are very optimistic in enjoying the entire fruits of Warangal facilities from FY25. Nepal operations are also expected to be aligned by the end of current quarter where we feel to reach at 75-80% utilization level. So this is all from our side and we are very thankful for your kind attention we would now like to open the floor for any questions that you may have. Thank you.

Moderator:

Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Gunjan Kabra from Niveshaay. Please go ahead.

Gunjan Kabra:

Hi Sir thank you for the opportunity. Sir one thing I wanted to understand is like we have gotten approval from Moon Beverages so I wanted to understand how does this approval system work because Coca-Cola HCCB has their own bottling plant which they would not divest. So there are too many bottlers like maybe Ladhani Group or there is a bottler in south also so there are too many bottlers as well part from this so do we have to take approval from all or is it just Coca-Cola will give you the order and what is the scope of order size that we can expect from them

going forward? I mean how will it ramp up and are we just trying for Coca-Cola India or we are expected to go global and get approval from the other countries as well.

Yash Sharma: So Gunjan basically Coca-Cola approval happens from the global side. So our trials and everything that is happening is happening on the global site and it handled by Coca-Cola Atlanta. So once we get the approvals, we get the approval to supply to any of the partners in the Coca-Cola system that is number one. The approval that we have now got from Moon, it is not an approval it is basically a first commercial order that Coca-Cola has lined up because apparently they will be the ones to launch the first rPET bottle of Coca-Cola very, very soon. Our discussions with other bottlers are also parallelly going on and every bottler is coming up with their strategy for using rPET in certain SKUs in certain products in coordination with Coca-Cola centralized OUT. For now we are basically in discussions with all the bottlers of Coca-Cola for starting the ramp up of rPET. About the volumes we cannot really disclose how much volumes Coca-Cola might be committing us for this year. They are still finalizing their strategies but yes they are starting to commercially ramp up their rPET usage from next month onwards.

Gunjan Kabra: The margins will differ with respect to Coca-Cola and other bottlers or is it expected to remain the same?

Gopal Agarwal: Yes the margins we are expecting, is that better than our existing business.

Gunjan Kabra: Okay Sir also consolidated operating margin, show 10% and standalone was at 7.4% so incremental revenue in the consolidated business has not been that high compared to what margins uptick we could see so if you can say what has happened or is it because of the Nepal plant that has been operational or how is it.

Gopal Agarwal: Basically the inter corporate transactions. I mean the group companies are not part of the revenue from operations in the consolidated results that is why the turnover which is between the Nepal unit and the Indian counterpart of Ganesha Ecosphere as well as the sales from the Ganesha Ecotech to Ecopet has been locked out from the results on consolidated basis. That is why the turnover is lower but of course their margins are coming into final accounts.

Gunjan Kabra: Sir going forward, can we expect some more raw material inventory loss in the coming quarter as well because scarp bottle prices along with finished goods have been decreasing or has it been normalized?

Gopal Agarwal: Yes basically the inventory loss is on finished goods and processed stock, it is not on the raw material front. We feel that the prices have bottomed out in Q1 and so in Q2 we are not looking for any great inventory loss.

Gunjan Kabra: Okay Sir just last question considering the current slow business environment and the recycled dynamics work a little different with respect to virgin fibres so I wanted to understand how much margins can we expect in bottle to bottle section in filament yarn in near term. Just wanted to understand the volatility in a down scenario versus the up scenario for recycled materials so from

a very good market if we are expecting say 20% EBITDA margin kind of business then in the slow and midterm how much margins can we expect in this segment is what I wanted to understand.

Gopal Agarwal: You see the ramp up in the capacity is going slowly, it is not a very faster pace so in the near term the cost is higher though we see good margins about 17-18% EBITDA level, but due to the lower level operations, it might not be great in next one or two quarters, so it may be 15% plus kind of margins you will see in the Q2 or Q3.

Gunjan Kabra: Okay Sir but irrespective of the capacity, I am just trying to understand product wise, if in a very good market in bottle to bottle chips or filament yarn if you are expecting around 20 to 25% EBITDA margin, then in a down scenario what kind of margins can we expect in rPSF or filament yarn is what I wanted to understand irrespective of the ramp up. I understand that if the capacity is coming online and ramp up is not happening at the same way, there would be a certain extra expenses but just the product wise I wanted to understand the market dynamics.

Gopal Agarwal: So even in the down scenario in PSF business we are hopeful for getting on track by Q3 and 10% plus EBITDA margin would be there in PSF business and for the bottle to bottle and the POY business we are looking for the margins of 17-18% EBITDA level.

Gunjan Kabra: Okay Sir I will get back in the queue. Thank you so much and good luck to both of you.

Moderator: Thank you. The next question is from the line of Harsh Shah from Dalal & Broacha. Please go ahead.

Harsh Shah: Thanks for the opportunity so continuing with the previous participant question you did answer that the EBITDA margins for the B2B chips would be somewhere around 17-18%, but currently you are the only player who has this capacity, what I am trying to ask is say in the next couple of years, 2-3 years down the line, could it be a scenario wherein the margins in the B2B chips would kind of get compressed because I believe players would definitely be entering into this space and the clients that we are dealing are much larger in size, so they would be having a higher bargaining power and even more suppliers.

Gopal Agarwal: You see the rPET consumption is mandated by the regulation that will start from FY2025 onwards and the government regulations is mandated for 30% consumption in the very first year, which would be climbed up to 60% by 2028 so given the size and demand of the recycle would be great and we expect by FY2029, FY2030 the demand of rPET could be in the bracket of 0.9 to 1 million tonne so that is a great demand and we do not think there would be any pricing pressure because of the size of the market which is going to be created in this case.

Harsh Shah: Okay and Sir one related question to the recent order that you got from Moon Beverages so can we expect the revenue to flow from Q2 onwards or something later than that?

Gopal Agarwal: In Q2 not much revenue would come but revenue would flow from Q3 onwards.

- Harsh Shah:** Okay and I believe we have just come out with a press release saying that we have added capacity, right. You will be adding capacity of close to 12,000 metric tonnes per annum. So I believe that the existing capacity that you have of the same size, so we are expecting full utilization in FY2024.
- Gopal Agarwal:** Yes we are expecting. We will be able to utilize the 80-90% capacity utilization by Q4.
- Harsh Shah:** Okay and can I get any broad range on the realization of these B2B chips?
- Gopal Agarwal:** It depends upon the market. Basically the prices will try to play a role so you can see the broader range from 95-105-110 level depending upon the scenario of operating and other contributing factors.
- Harsh Shah:** Okay yes. Thanks for the explanation that is it from my side.
- Moderator:** The next question is from the line of Jenish Karia from Antique Stock Broking. Please go ahead.
- Jenish Karia:** Thank you for the opportunity. The first question is regards to the revenue for the quarter in the trading and yarn business.
- Gopal Agarwal:** The mix of the revenue is about 85% from the fiber business and 15% from the yarn business.
- Jenish Karia:** Okay understood. Sir secondly on the capacity expansion so we will be adding a line by October, November this year 12,000 tonnes and we are expecting the current capacity to be 90% utilized. So the new capacity are we expecting full utilization of the 24,000 tonnes by end of FY2025?
- Gopal Agarwal:** Yes, yes we are expecting it.
- Jenish Karia:** So any future plans for addition after this 24,000 tonnes may be future additions in FY2025, may be adding one more line or any guidance on that front?
- Gopal Agarwal:** Yeah, we are considering to adding some more capacity, but the plan has not yet been finalized. So we will come back to you after we finalize the plan for adding further capacity.
- Jenish Karia:** How much land would we have after this October capacity addition at the south plant?
- Gopal Agarwal:** At the existing plant, we can add 2-3 more lines.
- Jenish Karia:** Okay south plant, if we add three more line, the B2B capacity can increase to approximately 50,000 tonnes.
- Gopal Agarwal:** Right.

- Jenish Karia:** Okay and are we not looking at any geographical diversification apart from this south plant assuming you announce more capacity additions in 2025-2026, will we see any new capacity outside south India, any geographical diversification plans?
- Gopal Agarwal:** We are discussing for various opportunities on various geographies but it depends on our tie ups with our brands where their consumption plants are situated, where more quantity can be sold in which part of the country plus logistic and concentration of the brands, concentration of the customers so it depends on that.
- Jenish Karia:** I just wanted to understand where is the end consumer market with regards to sales of bottle to bottle that we are targeting, is it more towards the north or spread out across India any comment for that.
- Yash Sharma:** So actually I mean if you look at the Coco Cola market is spread out across India though a lot of bottle water consumption happens in the south of India, so south of India consumes almost 40 to 45% of bottled beverages in any given year because of the temperature profile, the weather profile and non-availability of portable water, but across all India bottle consumption is quite high.
- Jenish Karia:** Okay I have a question if I can just ask that. So right now we heard about Kinley and Pepsi coming out with recycled products in select markets for this SKUs right? So they might have sourced the rPET from some other supplier or was it imported do you have any update on that if you can just help us with that?
- Yash Sharma:** So basically yes you are right Coco Cola has already launched Kinley and Pepsi has also launched Pepsi Black, so obviously they are trying to launch as many products as possible with rPET consumption and currently they have sourced it from other suppliers both imported as well another local supplier as well and we are also expecting to launch very soon with both of them as well.
- Jenish Karia:** Just a follow up on that. Will we have some pricing pressure going forward from the imported products in India or that does not change our pricing dynamics going forward?
- Yash Sharma:** Not really. Actually the input that we have is that the imported material is even more expensive, so not really.
- Jenish Karia:** Okay that is helpful. I will come back in the queue for more questions. Thank you.
- Moderator:** Thank you. The next question is from the line of Harsh Jhawar from Ocean Dial. Please go ahead.
- Harsh Jhawar:** I wanted a clarification on the margins, you mentioned for bottle to bottle of 17 to 18% so is it the margins for FY2024 or you are saying this business will have long term margins of 17 to 18%?

- Gopal Agarwal:** Basically this is the margins to start in the Indian market. So we are expecting the margins will go up as and when we go nearer to the 2025, when the regulations will come up because all the plants and everybody who is starting the consumption of rPET, as of now they are not in a position, because the rPET is costlier than the virgin chips so they have to adjust everything as of now so at the pricing front they are little bit reluctant for giving the higher prices as of now, we are thinking of going forward as the product stabilizes, as the supply stabilizes and as the ramp up of the rPET increases to match with the regulations to comply with the regulations the prices and margins will go up further.
- Harsh Jhawar:** Okay and Sir are we also exploring export opportunities with Coca Cola in bottle to bottle?
- Yash Sharma:** Definitely, yes. We will get the approvals for global consumption, but it really depends on where they want to ramp up their rPET usage so that is something that will play out in the coming years because even the regulation in Europe kicks in from 2025 onwards so we are already under discussions with some bottling partners in Europe as well, but it is all going to play out eventually as the regulations come closer.
- Harsh Jhawar:** Okay and Sir realization would be higher in case of exports and margin will be higher in case of exports in bottled to bottle?
- Yash Sharma:** This is something that we really have to see as the market evolve because currently the market is still in a very, very nascent stage. The markets are evolving. The product capacities, qualities are all evolving so that is something that only the market can tell us with time.
- Harsh Jhawar:** Okay and Sir my last question is on PSF pricing. So we have said that things have bottomed out and it is starting to look up now. So where do we see these prices stabilizing?
- Gopal Agarwal:** Actually the pricing depends on various factors. Presently the prices were same because of the global scenario where the export to the western world has come down heavily and dumping from China is also there so there is pressure on the pricing. You see the cotton prices has also come down. The prices of crude ash have also come down, so all this factors played a role but going forward we are seeing demand in reviving in the latter part of the last month so prices have also started to look up but it all depends on the demand side how it will ramp up in the coming quarter. So definitely we are seeing that the bottom has come out, but how much prices will go up, it all depends on the demand and supply scenario.
- Harsh Jhawar:** But will we be able to maintain our gross profit per kg number?
- Gopal Agarwal:** In the last quarter we could not, but of course in the current quarter and the coming quarter we will be able to maintain our gross margin.
- Harsh Jhawar:** Okay thank you Sir.
- Moderator:** Thank you so much. The next question is from the line of Dhruv Bhatia from Bank of India Investment Managers. Please go ahead.

- Dhruv Bhatia:** Good afternoon Sir. I just want a clarification. Firstly is that for the rPET, your current capacity that you have put up is 15,000 tonnes and the addition that you are doing is 12,000 tonnes, is that correct?
- Gopal Agarwal:** Actually to be precise the start capacity of 14,400 tonne for the line is as per the rated capacity from the supplier but with our experience we got from Indian raw material and everything, we found it that the practical production capacity is 12,000 tonne only that is why we informed 12,000 capacity. Actually the line is same so rated capacity is also 14,400 tonne but the actual capacity is 12,000 tonne keeping into the raw material of the Indian market.
- Dhruv Bhatia:** So you are saying basically the, the nameplate capacity is 12,000 tonnes, but you can probably in your assessment achieve 14,400 tonnes.
- Gopal Agarwal:** I do not think we can achieve the 14,400 tonnes. Yash can explain it further or Prashant can give us a very well coverage. Prashant you please carry on with this.
- Prashant Khandelwal:** Good morning Dhruv so it is the bulk density of the material which controls the output of the line. So basically in India what is happening that we have a lot of water bottle with a very thin layer of PET. The weight of 1 litre water bottle came down to 18 to 19 grams now. So if the bulk density is lower, we cannot get higher throughput of the line and all suppliers from Europe and US are basically working on bulk density from their region. The water bottles in Europe and US is having a thick layer and the bulk density of their material is higher than what we are getting in India so that is why we are getting a difference of capacity utilization in India for this recycling.
- Gopal Agarwal:** That is why you can see the rated capacity is 14,400 tonnes, but practically in India we can get the production to 12,000 tonne only.
- Prashant Khandelwal:** We are still working on this and I hope in coming days we will try to achieve some more production capacity out of it, but yes till now this is the final capacity what we have achieved.
- Dhruv Bhatia:** And the new capacity which you announced today of 12,000 tonnes that again is a nameplate capacity and achievable probably would be slightly lower.
- Gopal Agarwal:** No, no nameplate capacity is 14,400 but the achievable capacity is 12,000 tonne.
- Dhruv Bhatia:** Just to understand currently with 12,000 tonne capacity that you have that can do about 120 Crores of revenue going by Rs. 100 realization and as you mentioned EBITDA margin should be 17 to 18% that is the way to think about the rPET business right.
- Gopal Agarwal:** Yes.
- Dhruv Bhatia:** The incremental capex that we have announced today, I think earlier on Warangal facility overall had an incentive where on yearly basis you were expecting 15 to 20 Crores of incentives. Does this new announced capacity for Warangal also is it eligible for incentives?

- Gopal Agarwal:** We are approaching the government for the same. We are not yet clear will we be able to get the incentives or not. It is not part of the original project. It is the extension so for the extension we have to approach the government.
- Dhruv Bhatia:** Okay and finally I just want to understand, I mean you are in discussions you said with multiple other customers for the rPET business, this is both in India as well as international at this moment because the last time I think you had talked about that because from April 2025 it is compulsory that 30% of the bottles has to be coming from recycled that you will be focusing on domestic markets. So are you looking at focusing on domestic or both and your conversations and you are looking at new client acquisition both in domestic and export.
- Yash Sharma:** So basically the focus is on domestic, yes, because the regulation coming in India is coming on quite strong, but we are in conversations and open to working with international clients as well. So we are also having ongoing discussions and conversations with international brands as well.
- Dhruv Bhatia:** Understood and just lastly as the virgin pet prices have been falling how should we think about pricing and profitability for the rPET business going forward when prices fall, when the gap increases, does that mean that there is more pressure on profitability for rPET business?
- Yash Sharma:** Definitely yes virgin pet prices do put pressure on the rPET profitability and pricing as well but then you have to also understand that as the virgin pet prices fall our raw material prices of the scrap bottles also are kind of linked to it so they also fall along with it which is what has been happening in the past 6-7 months as well. So definitely yes, whenever there will be a pressure on the virgin polymer prices, there will be a pressure on rPET as well.
- Dhruv Bhatia:** And current realization gap would be 20% where virgin would be 20% cheaper.
- Yash Sharma:** Correct.
- Dhruv Bhatia:** Thank you so much Sir.
- Moderator:** Thank you. The next question is from the line of Bhavya Gandhi from Avendus Wealth. Please go ahead.
- Bhavya Gandhi:** If you can throw some light on the overall debt levels long term as well as short term and what is our average cost of borrowings and the repayment schedule going forward how is it like?
- Gopal Agarwal:** On consolidated we are having a total debt of about 550 Crores in our books including the working capital debt and cost wise we are getting the funds as of now around 8.5% is the average costing for our funds and the repayment of the long term loans which is in the tune of about 350 Crores is by FY2032.
- Bhavya Gandhi:** Okay got it by FY2032 and with respect to OCF, can you share the operating cash flow number for the quarter and do we internally look at OCF to EBITDA because the conversion seems to be

quite low around 16-17% on an annualized basis because our repayment of interest or reinvestment capabilities decided on OCF so do we internally monitor that?

Gopal Agarwal: Yes of course the OCF is internally monitored by us.

Bhavya Gandhi: What is it for the quarter and if you can share that number?

Gopal Agarwal: On operation front the operating cash flow for the quarter is almost at par because the profitability has took a hit in the quarter we are in the investment mode so hardly we did not get any surplus in operating fund in this quarter along with the repayments.

Bhavya Gandhi: We see lot of private equity deals happening in the circular economy space especially in the recycling so do you think that the competitive intensity going forward will be increasing because lot of players will be getting funding from different PE players and they can fund the Starlinger machines and bring in some sort of pricing pressure so any take on that.

Yash Sharma: So basically as this was also discussed that the market of rPET that is going to be created and the demand that is coming up globally moving forward is immense. In India itself we are looking at 0.9 million tonne to 1 million tonne of market being created by 2028 and for that matter when we are talking about setting up a manufacturing capability for circular economy products like this rPET bottle to bottle it is not easy to achieve the desired qualities that is also very practically works good just like a virgin plastic at the performance level of the final packaging that is something because when you talk about big FMCG brands, they do not want to compromise at all with the quality of their packaging because that is the first point of contact with the customers right, so definitely some capacities will come up, some of them might not work really good because we have seen a lot of capacities failing outside as well which have come up. They are not able to deliver the right product which is suitable for application by FMCG brands. We have proved that our quality and capability is better than the most so we are not facing that much of our pressure or heat in that sense but looking at the market demand that is coming up and the kind of capability that you need to create this kind of a product is we do not feel that we will face any pressure from the external market.

Bhavya Gandhi: Fair enough and with respect to the regulation, which is going to come up by FY2025, 30% you need to have recycled bottles. Do you think that that can be postponed and who is the body governing that regulation, if you can throw some light on that, how strict would be the execution in terms of implementing the regulation something on that front?

Yash Sharma: So basically what is happening is that when we are talking about the regulation being shifted, no it is not happening the current understanding of the industry is that the regulation is coming on. There might be a possibility that they can probably offer some kind of leeway to the brands in terms of the amount of the percentage like instead of 30%, they would just impose a small penalty if you are lower than 30%, I mean if you do not do it at all then there is a very huge penalty so there is some kind of acceptable leeway are trying to be factored in which will ease out the pressure a little bit for the first year, but when we were talking about the regulation the

industry is fully promoting it including all the FMCG brands as well are also promoting it to come online so we do not see any shift in the regulation happening.

- Gopal Agarwal:** India is also a part of the global pet in which they have to reduce the carbon by 1.5 to 2%.
- Yash Sharma:** Correct so basically it is also part of the climate change strategy that we are already having in place. If you know that the government of India has got a huge fund from World Bank for reducing its carbon dioxide emissions and rPET, bottle to bottle chips is a big contributor to that fact because in this polymer you are saving on your environmental impact by 60-70% and that is the reason that it is being promoted very heavily and they are being regulated very-very soon.
- Moderator:** Thank you. The next question is from the line of Nidhi Hasija from Goldman Sachs. Please go ahead.
- Nidhi Hasija:** Hi Sir. Sir just wanted to understand what is the peak debt that we are looking at for the current expansions that are ongoing?
- Gopal Agarwal:** The debt which we are currently having in our book is of 550 Crores and going forward we see the peak debt would not be more than 600 Crores at any point of time.
- Nidhi Hasija:** Okay understood. Sir can you also comment on the quarterly run rate for the depreciation part of a subsidiary so if we look in Q1 the depreciation rate was much higher than what it was it was in Q4 so is it expected to continue at this level or are we expected to see a substantial increase in that as well.
- Gopal Agarwal:** The production lines which have started depreciation is for that and going forward we would be having the PSF line to be operational and the new B2B line is to be started so the depreciation rate would be increasing because of that extension.
- Nidhi Hasija:** Sir can you give some colour on quarterly run rate I mean all this lines operational by Q4.
- Gopal Agarwal:** On consolidated level the depreciation level is around 12 Crores on quarterly basis so going forward we are looking about 35 to 40 Crores depreciation level at Warangal plant and 25 to 26 Crores for the parent company so going forward it may be around 60-65 Crores on the consolidate level.
- Nidhi Hasija:** Thank you Sir.
- Moderator:** The next question is from the line of Deep Mehta from Bank of India Mutual Fund. Please go ahead.
- Deep Mehta:** First question is regarding our recent order which we have won from Moon Beverages the duration of this order is around three months so are we expecting that we will get short timeframe orders one after one order or do we expect that this short term order will be converted into something like a long term contract.

- Gopal Agarwal:** This is not a great quantity but it only from one of the bottle of Coco Cola system so we are looking for the orders to come from other bottlers also shortly and currently we are not making any long term contracts with the brands.
- Deep Mehta:** Okay Sir so we are expected to have short term contracts depending upon the pricing and volatility of raw materials.
- Gopal Agarwal:** Because just rolling on the products, we are not going for the long term contact. We will meet long term contract when we will see more clarity from the pricing side of the things.
- Deep Mehta:** Understood Sir and my second question is regarding our filament capacity. What was the utilization there in first quarter and how are the interactions with clients going on there and how should it get ramped up?
- Gopal Agarwal:** The capacity we are operating at about 25 to 30% capacity at present and we are working with various plants for FDY in the bottle to filament chips.
- Yash Sharma:** Definitely so basically it is a similar story there. So over there, we are undergoing a lot of spot approval stages with some brands so that is also going to take a couple of months to ramp up as well.
- Deep Mehta:** That is very helpful Sir. That is all from me.
- Moderator:** Thank you. The next question is from the line of Suraj Nawandhar from Sampada Investments. Please go ahead.
- Suraj Nawandhar:** Hello Sir good afternoon. Sir I just needed a small clarification are we approved by Coco Cola or is that for small trial order before we get approval.
- Yash Sharma:** So basically this is not a small trial order, this is a commercial order that we are going to execute with Coco Cola very soon.
- Suraj Nawandhar:** Sir will there be any shortage of raw material going forward from let us say next year because there will be lot of demand from next year as the regulations kick in?
- Gopal Agarwal:** The regulation will come from FY2025. Of course the raw material there might be some shortage of raw material because the raw material will first go to bottle to bottle chips and after fulfilling their demands of the bottle to bottle chips it will be for PSF business. So going forward it may have some pressure around the availability but during the growth of pet business itself which is growing by about 9 to 10% so every year about 100,000 tonnes raw material will also be pumped in the system.
- Suraj Nawandhar:** Sir just wanted to understand the competitive advantages that we have that no else will come and do the same business that we do, it is on the process side, is it on the sourcing of raw material side where do we have that more that will protect our margins going forward.

Yash Sharma: So definitely yes basically the first competitive advantage and the most major one is our sourcing capability because we are currently capable of sourcing around 500 tonnes of post consumer waste every day and that is because we have a very huge network of supply chain that we have built over the years of connecting with small rack pickers, small kabadiwala, and small bailers in our system and that is one of our big competitive advantages of sourcing the right materials. The second competitive advantages is that we have is operational efficiencies because the kind of process control that we are capable of that we have already setup and because of which we are capable of delivering a very superior quality product and with a much lesser cost levels if you would compare to any new player coming up, these are the two competitive advantages which will help us position ourselves much better than any other competitor.

Suraj Nawandhar: Okay Sir thank you.

Moderator: Thank you. The next question is from the line of Akash Jain from MoneyCurves Investments. Please go ahead.

Akash Jain: Thank you. I have a few questions so recycled polyester staple fibre business is a little bit of a commodity business and margins are lower and these are also dependent on the demand and pricing in the global market and even the ROC profile of the business is much lower than the new products that we do, which are more high margin and high housing products what we see in the recent expansion we have added more capacity in RCF so can you please help me understand what is your strategy regarding recycled polyester staple fibre, do we see that we will expand this part of the business also significantly because clearly this is not as attractive a business as the new part of the business that we added now,

Gopal Agarwal: For recycled PSF segment, going forward as our understanding and necessity of the circular economy and recyclability, sustainability kicking in, people are having greater sense of responsibility towards the environment and so the demand of the recycled material is growing and so we are also having approvals from some of the global brands for using the recycled PSF Indian products so number one this trend is going to increase further and we would be able to sell more of the quantity to the brands here we are getting the better pricing than the general commodity product, number one. Number second we are developing some more products, some value added products like short cut fibre which we are pitching in the export market, as well as in the domestic markets where the margins are higher. Number three, we are going into the dyed piece of segment where the margins are really higher than the normal commodity product and in case of Warangal we would be having some added advantage in the form of logistic input as well as output.

Akash Jain: But are we looking at expanding this part of the business in this future or most of the new capex will happen in the higher margin asset or filament yarn business?

Gopal Agarwal: Yes of course at present we are looking for some value added products. We are focusing on value added products only.

- Akash Jain:** One other question I had was if I look at the difference between the margins for standalone and consolidated, is most of the difference because of the Nepal better pricing and sourcing advantage because my understanding is the revenues from the filament yarn and the bottle to bottle is still very low. So is most of the benefit on consolidated margins coming because of sourcing from Nepal is that something that we can understand?
- Gopal Agarwal:** In fact EBITDA margins in terms of percentage are higher because some sale has been knocked out. The base has been quite low from the gross level number one. Number second of course there is some margin from the Nepal business and also some margin from the Warangal business also.
- Akash Jain:** Okay thank you so much.
- Moderator:** The next question is from the line of Mitali from Compound 26 Capital. Please go ahead.
- Mitali:** Hi a couple of follow up from the previous participant. My question is regarding our recent order from Moon Beverages how long does it take for us to onboard them as customers. You also alluded that we are in talks with other potential customers how long does it generally take to onboard them in terms of completion of technical assessment and social audit?
- Yash Sharma:** So the usual period is basically around 10 months. We have been working with Coco Cola since 10 months now since we first started the approval process so that is the usual time you would take with bigger brands like them.
- Mitali:** Okay got it and I would like to know about the sourcing of pet scrap that we alluded before this question, how difficult is it to replicate that network with vendors and scrap dealers to source raw materials if new competitors come in?
- Yash Sharma:** So basically it is not just replicating of the network. It is also about having a relationship with these vendors. Since we have been operating in this industry since the past 30 years we have a very good understanding and a very good relationship with most of our vendors and that is because of which we are capable of scaling our sourcing operations as well and that is the important part.
- Mitali:** We mentioned right like because of the government rule kicking in, we see margins increasing going forward, but if new competitors keep entering the space and increase capacity, do you think we will see a declining trend in terms of realization?
- Gopal Agarwal:** Because of the regulations the demand is actually quite high so we do not think the supply side will catch up the demand in coming four-five years.
- Mitali:** Okay and just one last you alluded in the presentation there was demand pressure due to Chinese dumping so it is reasonable to assume that some of the supply has been pulled forward. How do you see demand trends for the next few quarters considering some inventory pile up in the industry?

- Gopal Agarwal:** In fact the Government of India has introduced a BIS standard for the yarn and fibres and the textile products so some of them have been implemented and some has been postponed for the next quarter. So with the implementation of BIS certainly the dumping from the cheap Chinese material would stop.
- Mitali:** Okay I will joined the queue for follow up. Thank you.
- Moderator:** The next followup is from the line of Jenish Karia from Antique Stock Broking. Please go ahead.
- Jenish Karia:** Thank you for the followup. Sir earlier there was a ban implemented by the government on import of pet bottle scrap and flakes as well and we are using our Nepal facility to import pet flakes and feeding it in the north plant, so are we at the mercy of government for optimum utilization of Nepal facility for our north plant can you explain that a little bit in detail?
- Gopal Agarwal:** Yes the pet flakes which we are producing in Nepal plant is coming to our Indian plant for Ganesha Ecosphere.
- Jenish Karia:** Government can ban the import of pet flakes right?
- Gopal Agarwal:** Actually pet flakes import is not freely available to everyone. It is just 15% of our production, which we can import from out of India in the form as pet flakes so it is under licensing.
- Jenish Karia:** Okay so there is no cap for 15% of the production, right?
- Gopal Agarwal:** Yes it is capped for 15%
- Jenish Karia:** We use the Starlinger machine for making the finished product and there was a big lead time we used to highlight earlier for import of those machines so has that lead time gone down or it remains elevated?
- Prashant Khandelwal:** It remains at the same level because it is the technology and they have to get a lot of outsourced components from different partners, their own suppliers and as well as they have to get some clarity and clarifications from EFSA (European Food Safety Authority) also that would include safety regulations. So the lead time is still at the same level.
- Jenish Karia:** So if we plan to add additional capacity in FY2025 six months down the line. So we would not be able to do that unless we have yet placed the orders for the machine.
- Prashant Khandelwal:** We are in discussion. I think it is not the right time to disclose what has been planned for the future.
- Gopal Agarwal:** We are discussing various options and capacity ramp up but firstly we are waiting for the rolling of existing capacity, which seems to be on track now and by fourth quarter we will be able to utilize the full production capacity so now we are thinking it is the right time to move forward for

the further capacity expansion. We are discussing at board level so we will come out with the plan once we decide on that.

Jenish Karia: That is great and just one last question if you can just help us with the broad based capex numbers in case of brown field and green field expansion that is all from my end.

Gopal Agarwal: As informed to the exchanges, the second line which we are putting in, we are having all the infrastructure and civil work is there and we are having all the utilities also so just the machine cost is there, which is around 50 Crores for this brown field expansion.

Jenish Karia: B2B plant.

Gopal Agarwal: B2B plant yes.

Jenish Karia: In case we put up B2B Greenfield plant, what would have been the capex?

Gopal Agarwal: For the Greenfield plant it depends on kind of washing infrastructure you are having with you. So if it is for the Chinese infrastructure or it is very advanced European infrastructure.

Jenish Karia: The infrastructure that we are having in the south plant.

Gopal Agarwal: Yes we are having the European machinery with us for the washing infrastructure and for similar kind of infrastructure with the European wash line and European B2B granule line with a capacity of about 25,000 tonnes is about 225 to 250 Crores.

Jenish Karia: Okay that is helpful Sir. Thank you and all the best.

Moderator: Thank you very much. Ladies and gentlemen we will take that as the last question. I now hand the conference over to management for closing comments.

Gopal Agarwal: I would like to thank you everyone for joining us on this call. We hope we have been able to address all your queries. Thanks to Mr. Manish for hosting this call have a good day. Thank you.

Moderator: Thank you very much. On behalf of Antique Stock Broking Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.

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