



Ester Industries Limited Q1 FY21 Earnings Conference Call Transcript August 07, 2020

Moderator: Ladies and gentlemen, good day and welcome to Ester Industries Limited Q1 FY21 Earnings Conference Call. Please note that this conference is being recorded. I now hand the conference over to Mr. Gavin Desa from CDR India. Thank you and over to you, sir.

Gavin Desa: Thank you. Good day everyone and a warm welcome to Ester Industries Q1 FY21 Analyst and Investor Conference Call. We have with us today, Mr. Arvind Singhania – the Chairman and Mr. Pradeep Kumar Rustagi – the Chief Financial Officer. We will begin this call with opening remarks from the management following which we will have the floor open for interactive Q&A session.

Before we begin, I would like to point out that some statements made in today's discussions maybe forward-looking in nature and a note to this effect was sent to you in the invite earlier. We trust you have had a chance to go through the documents on the financial performance. I would now like to invite Mr. Singhania to make his opening remarks. Over to you, Arvind.

Arvind Singhania: Thank you, Gavin. Good afternoon everyone and thank you for joining us on our earnings call today. I have alongside me, Pradeep Rustagi – our CFO. Before I begin, I hope all of you and your loved ones are safe and healthy. I will start the call by highlighting the key operational highlights, post which Pradeep will walk you through our financial performance for the quarter.

To begin with, our revenues during the quarter were largely impacted by the lockdown led manufacturing and supply disruption which we had indicated to you about in our previous call. I had also said that the business has picked up pace again and we should be performing well for the rest of the years. Film business has seen good traction again on the back of strong demand. Performance of Specialty Polymer Business, consequent to the pandemic and the increasing restrictions in customer markets, was muted, though we are confident about long-term prospects of the business as fundamentals remain strong.

Performance of the Engineering Plastic Business was suboptimal owing to suspension of operations due to softness in the application industry segments. However, return to normalcy has been faster than expected as we have been able to achieve normal levels of operation in the month of July 2020. Whether this will be sustained going forward remains to be seen. Though, overall situation in the near term continues to remain challenging for the EP business, we are nonetheless undertaking steps towards reviving this business by improving the product mix and rationalizing expenses.

Let me now talk about the individual businesses starting with Specialty Polymer:



FY20 was an exceptional year for the business with strong revenue and profitability growth. Though our Q1 performance as indicated in our previous call was to a large degree impacted by the closure and lockdown challenges in India and USA, we expect return to normalcy towards the end of the current financial year, may be a little bit sooner. Had this pandemic not happened, we would have definitely seen a very strong growth in FY21 itself. Demand for the innovative PBT continues to remain steady and growing. Further, new product for the carpet industry which we had developed has been found to be very successful. We have already started receiving orders for commercial volumes in the last couple of weeks. This product has immense potential going forward. MB-16 which is our newer version for the Cationic Dyeable Master Batch has also been qualified by some of our customers and we expect to start receiving the first commercial orders within the next 2-3 weeks. Apart from this, we have a healthy product pipeline in various stages of development/customer approval which makes us extremely confident about the prospects of Specialty Polymer business going forward.

Moving onto the Film business:

The revenues for the quarter were lower largely owing to lockdown related challenges. As a result, we lost about 1,600 metric tons amounting to about Rs. 20 crore of sales in the month of April 20; however, since May 20, we are running our plant at full capacity. While domestic demand has been growing at a healthy pace of 11% to 13% per annum, we are also witnessing further upsurge in demand due to COVID-19. It appears that there is a shift towards packaged products for health, hygiene and safety reasons.

Margins during the quarter improved over corresponding quarter and previous quarter resulting into sustained profitability despite lower volume of sales. We expect the business momentum to continue on the back of strong domestic and international demand. Further, we are also working towards increasing the share of value-added products in the overall mix. We have commissioned offline coater which is a significant step in this regard. We are planning to increase the share of value-added products to 30% over the next couple of years which would help increase the profitability levels in this business. As regard to expansion of film capacity through a wholly owned subsidiary, I am very happy to inform you that we have already started implementation of the project. We are confident that basis projected performance, the expansion will not exert any pressure on our balance sheet. Our debt levels are at a very comfortable level at present. Pradeep will talk about this in a bit. All I will say is that we are conscious of the need to maintain growth momentum and we will achieve this with better than prudent levels of debt to ensure a healthy balance sheet always.

Moving onto Engineering Plastic business:

Performance of the Engineering Plastics business was suboptimal owing to suspension of operations due to softness in the application industry segments. However, return to normalcy has been faster than expected as we have been able to achieve normal levels of operation in the month of July 2020. Like I said before, whether this will be sustained going forward remains to be seen. Overall situation in the near term continues to remain challenging for the business. We are nonetheless taking steps towards reviving the business by improving the product mix and cutting down on expenses. A quick word before I hand over the floor to Pradeep. We have been diligently working to improve efficiencies and enhance productivity. Conscious of the need to maintain a healthy balance sheet, we have adopted a judicious and prudent approach as regard to utilization of funds for prepayment of interest bearing term liabilities and conserving resources for expansions of project.

To conclude:

I would just like to say that after delivering a strong performance in FY20, we believe FY21 will be even better in terms of profitability. Film business is expected to drive bulk of this growth. Performance of Specialty Polymer business is expected to remain muted for some time due to impact of COVID on customer markets; however, we expect return to normalcy by the end of the current financial year. New developed products as well are seeing good traction and product pipeline continues to remain strong. Lastly, while Engineering Plastics business has had a few challenging years, we are hopeful of things improving over the coming quarters. With that, I hand over the floor to Pradeep to walk you through our financial performance.

Pradeep K Rustagi:

Thank you. Good day everyone and thank you for joining us on our earnings call. I hope all of you and your loved ones are safe and healthy. Let me quickly highlight the key financial development post which we can commence the Q&A session. Starting with the top line, revenue for the quarter stood at Rs. 189 crore as against Rs. 284 crore reported during Q1 FY20, lower by 34%, largely owing to the lockdown implemented during the beginning of the quarter. EBITDA for the quarter stood at Rs. 52 crore as against Rs. 54 crore generated during Q1 FY20, largely flat despite lower volumetric sales and revenue generation. A combination of the improved margins in film, improved efficiencies and cost management resulted in maintaining operational profitability. PAT for the quarter stood at Rs. 29 crore as against Rs. 24 crore reported during Q1 FY20, higher by 23%.

Moving onto the segment wise performance, starting with the film business:

Revenues for the quarter stood at Rs. 161 crore as against Rs. 226 crore reported during Q1 FY20, lower by 29%. Despite lower revenue generation, we were able to report better margins and profitability owing to improved margins on account of favourable demand supply scenario. EBIT for the quarter stood at Rs. 55 crore as against Rs. 50 crore higher by 10%. EBIT margins in terms of percentage as per segmental reporting improved from 22% to 34%.

Moving onto Specialty Polymer business:

Sales for the quarter stood at Rs. 10 crore as against Rs. 16 crore reported during Q1 FY20. Performance for the quarter was largely impacted by the lockdown and closure issues in India and USA, but as mentioned by Mr. Singhania, given that the business fundamentals remain steady, we expect the same to revive steadily by end of the current financial year.

Lastly, moving onto Engineering Plastics business:

Temporary suspension of operation resulted in lower profitability for the quarter. While the overall business environment continues to remain challenging, our efforts towards improving the product mix and lowering the cost should help in maintaining the margins in the business.

A quick word on the balance sheet before we commence the Q&A session. In comparison to interest bearing debt of Rs. 142 crore as on 31st March 20, interest bearing debt stood at Rs. 99 crore as on 30th June 20 compared to Rs. 73 crore and working capital liabilities of Rs. 26 crore. Interest bearing debt as a multiple of EBITDA stood at 0.47x as at 30th June 20. We expect further reduction in the coming quarters. We are confident of maintaining total outstanding liabilities to tangible net worth ratio at prudent levels going forward. We are diligently working towards continuously deleveraging our balance sheet and improving our leverage ratios.

To conclude:

I would like to say that we are confident of delivering a good performance during FY21 aided by strong movement in the film business. Thank you.

- Moderator:** The first question is from the line of Sonaal Kohli from Bowhead India.
- Sonaal Kohli:** I have couple of questions, my first question is that, when you look at sales minus raw material per ton, what was that number for you in this quarter and if you can give some indication what kind of number would that be in the month of July?
- Arvind Singhania:** The gross value add in Polyester film for the June quarter was 12 micron plain commodity was Rs. 55, the gross value add. In July it is much higher. It is more like Rs. 77.
- Sonaal Kohli:** Sir, what is driving such a large change and would this change lead to increase in EBITDA or there are some other cost, so if I see the differential, 77 minus 55, what pushed off it will flow through EBITDA or there are lot of cost below the..?
- Arvind Singhania:** No, there is no increase in cost.
- Sonaal Kohli:** And sir, what is driving this change, so I mean did you start seeing this kind of numbers even in the month of May or June or it is largely a July phenomenon? What I am trying to understand is that was it that April was bad because of lockdown or May and the situation improved even in the last quarter or this is the recent phenomena and what is leading to this kind of change?
- Arvind Singhania:** We had touched these kinds of numbers even in March.
- Pradeep K Rustagi:** March was Rs. 52, 12-micron Corona.
- Sonaal Kohli:** Sir, I am talking about the 77 kind of number?
- Arvind Singhania:** We had touched that number of Rs. 70-72 also in the month of March, early March before the lockdown happened. So like I mentioned before, we are seeing a very steady growth in demand in the domestic market as well as the international market.
- Sonaal Kohli:** And is this demand here to stay or what could go wrong? What is driving this demand change?
- Arvind Singhania:** Like I have been saying that the demand growth in India has been in the range of about 12-13% for the last many years and we expect this demand growth to continue for the next few years. People are changing their habits and consumption habit, the people are changing, they are going more and more towards packaged foods rather than open Kirana shop material. It is a change of habit that is happening. We are a country with 1.4 billion people with close to 400 or 500 million people in the middle income bracket and that bracket is also growing substantially every year and on top of that, we are also seeing more movement towards packaged goods because of health and hygiene post COVID, so that itself has had an impact and which is here to say. We don't believe that this is a short-term spurt as far as demand growth is concerned. It is going to be a sustained growth story.
- Sonaal Kohli:** So sir, in the June quarter, what was the EBITDA per ton and the total tonnage you sold and what is the maximum you can sell in a quarter with current capacity?

Arvind Singhania: The maximum that we can do is approximately 5,000 tons per month right now and we are running at full capacity.

Sonaal Kohli: So June quarter was full capacity or?

Arvind Singhania: No, June quarter we lost 1,600 tons because of the lockdown in early April. So June quarter numbers would have been much better had the lockdown loss not happened.

Sonaal Kohli: Sir, what was the total volume sold in June quarter?

Pradeep K Rustagi: June Polyester film was 12,631 tons.

Sonaal Kohli: And you are saying you can do 15,000 in a normalcy?

Arvind Singhania: No, I mean 15,000 plus minus couple of 100 tons.

Sonaal Kohli: And sir, what would be your EBITDA per ton in the June quarter?

Pradeep K Rustagi: So the variable expenses and taking into the common expenses also, so we have per kg expense over raw material in the range of Rs. 25 to Rs. 27. So if Rs. 55 is my value addition for 12 micron, we reduce Rs. 27 that will give you the EBITDA of say Rs. 28.

Sonaal Kohli: Sir, lastly, if you can tell us about your Specialty Polymer business I mean this year will be washout as you said, but what kind of, let us say, more longer term plan, let us say 2023, what kind of, I know it is difficult to forecast because it is a little way off, but what kind of ambition you have or what kind of turnover you could achieve perhaps in let us say, 3 years from now and let us say, 2023 or 24 and what makes you confident or under confident about this growth in Specialty Polymer?

Arvind Singhania: For Specialty Polymer, the fundamentals remain very strong. Like I said before, we delivered a very good performance in FY20 and that would have improved substantially in FY21 had COVID not happened, but like I said fundamental for this business remain very strong, basically we have lost ground on our MB-03, the stain resistant Master Batch product which we did 1,100 tons last year, we were expecting to do anything close to 1,600-1,700 tons in FY21, but this volume will be lower because the main market in America has got very badly impacted and therefore we are going to lose volume on this account only. The specialty PBT business is steady and growing despite COVID, so we did 450 tons last year and this year we will do about 800 tons plus. So that business remains strong. Other than that right in the product portfolio, we had a variety of small products, which we have to wait and see how they will be impacted, so largely we may be close to last year performance in terms of volume and turnover in Specialty Polymer business, but next year onwards we expect a very significant growth owing to not only resumption of volumes in MB-03, further growth in volumes of the Specialty PBT and two new products which we have started in fact, the new product we develop for carpet market, we just started receiving orders in the last 2 weeks. So that product has been qualified and now slowly volume is starting to sell, last 2 weeks this is a new development. And also on the MB-16 which is our Cationic Dyeable Master Batch which was earlier known as MB-06, MB-16 has been finally qualified and we expect to receive the first commercial order in the next week or two. So there is a lot of potential in terms of these two new products plus the existing product and on top of that we have a pipeline of another two or three products with phenomenal potential which are at various stages of development with the customer for customer qualification. So that is why we are extremely bullish about this business going forward.

Sonaal Kohli: And sir, is there any ambition level like what is the realistic level of growth as investors we should expect, a broad range would do over the longer term?

Arvind Singhania: If you are asking over the next 3 years, where would we be, we could very easily be in the region of Rs.300 to Rs.400 crore with EBIT margin of 35-40%.

Sonaal Kohli: And what would be that number for 2021?

Arvind Singhania: 2021 may be the same as FY20 because of COVID or may be a little bit lower.

Sonaal Kohli: Rs.70-Rs.75 crore, would that number be?

Arvind Singhania: Approximately Rs.73 crore.

Moderator: The next question is from the line of Deepak Poddar from Sapphire Capital.

Deepak Poddar: Sir, just wanted to understand the pricing trend of BOPP and the sustainability that you see on the BOPP pricing?

Arvind Singhania: We are not in BOPP, we are in BOPET. We are not PolyPropylene, we are Polyester. Are you asking for Polyester or PolyPropylene?

Deepak Poddar: Polyester.

Arvind Singhania: Okay, so like I said that the demand growth is at 12-13% per annum and we expect this to be sustained going forward for the next years.

Deepak Poddar: And you mentioned about like Rs. 28 per kg kind of an EBITDA, right?

Arvind Singhania: Yes, Rs. 28 may not be a number which could be sustained on a regular basis for the next many years, I don't think that is going to happen.

Deepak Poddar: So, what sort of sustained level that you look for may be in the medium term in terms of per kg?

Arvind Singhania: This year is going to be very strong because no new capacities are expected till middle of next year. Since no new capacity is expected and the demand continues to grow at a healthy rate, so we expect margins to remain strong, whether that margin will be Rs. 80 in terms of value add or 70 or 55, I don't know, but it is going to be a fairly strong year.

Moderator: The next question is from the line of Giriraj Daga from KM Visaria Family Trust.

Giriraj Daga: Sir, you gave the number of Rs. 28, but when I look at your EBIT per ton, it is even come to Rs. 42-Rs. 43 per ton and if I add that to the cost?

Pradeep K Rustagi: That is EBIT, as per the segmental results and segmental results as per the accounting standard, the un-allocable expenses are not charged to the business, so it doesn't take into account the expenses which are for the common functions. So the EBIT margin would be more than the EBITDA because in EBITDA number that we told you, common expenses have been deducted.

Giriraj Daga: My question is, on July you gave the number of 77, is there a major movement in the month of August so far in terms of BOPET prices or raw material?

- Arvind Singhania:** No, there is no change in raw material prices. BOPET prices have softened a little bit, but nothing significant. Month wise, there is always a variation of Rs. 5, Rs. 6, Rs. 10, it will happen.
- Moderator:** The next question is from the line of Chirag Singhal from First Water Fund.
- Chirag Singhal:** Sir, I am just trying to match the numbers you gave for the BOPET, so on last concall you mentioned that the gross value add was Rs. 52 kind of and you also mentioned that the Q1 will be much more better than Q4 which we are seeing on the EBIT front like the margins have jumped from 26% to 34%, so I am just not able to match the numbers when I am doing it per kg or per ton that this Rs. 55 seems to be very lower, so you mentioned that in the March end, the margins were like Rs. 72, so was there a drastic improvement downside in the quarter one on the spreads and then again it is shot up, is that the scenario?
- Arvind Singhania:** First of all, in the last earnings call, I mentioned that the Q1 numbers will be very good, you will be surprised and that is taking into account the lockdown. Despite the lockdown, we have given these numbers. Q4, the PAT of 36 crore also includes a MAT recalculation of 9 crore. So if you remove that, the real profit was about 27 crore. Against that we have given 29 crore in this and if you compare it to the corresponding quarter, it was 24 crore. As far as value addition is concerned, it touched a peak of about Rs. 73 in the month of March, but it has not sustained during the March quarter at that level.
- Pradeep K Rustagi:** When we give you the value addition, we give for only 12 micron commodity films, then you have metalized films, you have value-added films.
- Arvind Singhania:** We have 30 kinds of films that we sell, but the bulk of the volume is in 12-micron Corona and that is the benchmark product and we give you the benchmark margins on that. Margins improved in the June quarter.
- Chirag Singhal:** So as we are seeing that two lines, which we know the competitors are going to come up within the current year 2020, so are you seeing that there will be due to this?
- Arvind Singhania:** No new line is coming up in 2020.
- Chirag Singhal:** No, the two new lines of BOPET, sir?
- Arvind Singhania:** Yes, India, there is no new startup till middle of next year.
- Chirag Singhal:** Yes, not India, globally I am saying, but the prices are driven by the global prices, right?
- Arvind Singhania:** Also, there is an impact yes, not fully.
- Chirag Singhal:** On the same front, I was asking that given the new capacities coming up in the next 12 months, do you foresee any improvement in the margins from the current levels in terms of the incremental capacities?
- Arvind Singhania:** See, with incremental capacities, one would expect a lowering of margins, not increase of margins, but in any case, demand is also growing.
- Chirag Singhal:** Yes, I meant the same thing from the improvement like are you seeing that, will there be any reduction in the margins because of the incremental capacities?

Arvind Singhania: Like I said, there may be, we expect FY21 to remain strong and it will be stronger than FY20.

Moderator: The next question is from the line of Gaurav Lohia from Bowhead Investments.

Gaurav Lohia: Just wanted to clarify on one calculation, so the number you gave to Sonaal where you said that the operations are normal and we are running fully and delta in gross margins contribution per ton is about Rs. 22, right, so the delta in EBITDA is coming out to be 30 crore, so let us say if we have done an EBITDA of 55 crore, would that mean that we will be close to somewhere around 80-85 crore in Q2 assuming that things or contribution remains there only for the full quarter?

Arvind Singhania: Yes, more or less if we do a simple maths calculation, those numbers are more or less right where it is Rs.80 or Rs.75, I don't know, but if these margins were to remain, then yes, the ballpark number that you have given would be correct.

Gaurav Lohia: Director's commission that we get, right, what this number would have been in Q1? Do we account for like the same? Do we spread it out over 4 quarters or is it like lower in Q1 and probably higher in Q4, then we know the full year profit?

Arvind Singhania: Let me make a very clear-cut statement that Director commission will be at 10% subject to a cap. The Director commission will not be irrespective of profits, let us say if the profits were to go to Rs.200-Rs.300 crore, the Directors will not take the full commission, we will cap it within market expectations and performance. Here also in FY21, we will cap it.

Gaurav Lohia: Understood, I was just asking what that number would have been in Q1?

Arvind Singhania: Approximately Rs.3 crore.

Moderator: The next question is from the line of Aditya Singhania from ENAM Holdings.

Aditya Singhania: Sir just wanted to clarify how pricing moves in India versus globally, I understand this is a product where we don't import I think or may be marginally, but there is some level of export, so is pricing some sort of export parity or global pricing or how does it happen?

Arvind Singhania: Yes, there is a link between export pricing and import parity, but right now we are running higher than both because of the strong demand. We are always able to attract the little bit of premium over import parity also.

Aditya Singhania: So just to clarify the Rs. 77 you said in July, you are saying the global prices or global spreads may be slightly lower than this and this has always been the case that India pricing is implying a slightly higher spread than global?

Arvind Singhania: Absolutely correct, your understanding is absolutely right.

Aditya Singhania: And what would be the reason for this extraordinary growth in India?

Arvind Singhania: I think our population is the single biggest answer.

Aditya Singhania: Yes, but population was same 6 months ago as well, why has the growth accelerated?

Arvind Singhania: Growth is accelerated, please understand another thing that whenever we talk about growth, we talk about growth in terms of percentages, when say 12%-13%. As the volume grows, the 12% let us say on a 500,000 tons will be 60,000 tons. On 600,000 tons will be 72,000 tons. So there is a compounding effect.

Aditya Singhania: But has the supply not kept pace with such addition?

Arvind Singhania: When two new lines started up last year, which were fully absorbed without any major disruption. The next line in India is expected only towards the middle of next year, so the capacity will need to be added to meet the demand, so we will need continuous capacity addition.

Aditya Singhania: And what prevents imports from happening, spreads in India or higher?

Arvind Singhania: It is not easy to import, it is not like a bag of cement or sugar that one bag can be consumed by any customer or any person, it is very fungible. In Polyester film, you have to be very specific in terms of the product you want, you have so many variables, you have micron, you have length, you have width, you have coating, you have treatment, so it is more of a custom made product, it is not easy to import and consume and there is a very big lead time. People are not able to also forecast exactly what kind of product they will need, so it is very difficult to import this product.

Aditya Singhania: And final question if I may be permitted to ask, we were hearing that there is some increased export demand as well from primarily European countries. Would you also see that in your business and why is that happening?

Arvind Singhania: The underlying reason for increase in demand of higher consumption of packed food that is happening in worldwide. This is the COVID impact.

Moderator: The next question is from the line of Saket Kapoor from Kapoor Company. Please go ahead.

Saket Kapoor: Sir, firstly, if you could give the breakup between the Specialty film percentage for the Q1, the polyester films? In the film segment, how much was Specialty?

Arvind Singhania: About 14%-15%.

Saket Kapoor: 14%-15% of the total sales?

Pradeep K Rustagi: Yes, 14-15% of 12,600 MT.

Arvind Singhania: We just commissioned our coater in the month of May, it is not fully commissioned because we are not able to get the engineers to do the full commissioning, so it has been slowed down because of COVID, but this will help us to increase our value-added product portfolio substantially in the coming months.

Saket Kapoor: Sir, this will be the enabler for it, it is on full commissioning of this offline coater that we will be able to scale up from the current 14-15% levels to 30% by end of this year?

Arvind Singhania: This coater will help us to reach about 25-26%.

Saket Kapoor: By when sir?

Arvind Singhania: Over the next few months.

Saket Kapoor: Over the next few months and what is the differential sir between the specialized films and the normal ones, the realization is different?

Arvind Singhania: Yes, so the additional contribution from these products will be in the range of Rs. 50 to Rs. 70 a kilo.

Saket Kapoor: In the cost side also, it will add or?

Arvind Singhania: That is additional contribution, so that takes care of cost.

Saket Kapoor: Secondly sir, how have the raw material basket behaved over the last quarter?

Arvind Singhania: For the last 4 months, it has remained absolutely flat.

Saket Kapoor: So, both the PTA as well as the MEG prices, the flattening of the curve is there for them, there is no exaggeration?

Arvind Singhania: There is zero movement in raw material in the last 4 months.

Saket Kapoor: And availability is not an issue sir in any case?

Arvind Singhania: No, it has never been.

Saket Kapoor: Sir, now if we come to the Engineering Plastic part sir, it has been the painpoint for even in last quarter also and even if we take the December quarter also, we were contemplating sir to put the same on block and now the COVID is full blown, any M&A would be a tough task, so what has been the capital employed for this segment sir?

Pradeep Rustagi: The capital employed in this business in terms of investment is receivables, inventory etc., all put together is about Rs.65 to Rs.70 crore including fixed assets.

Saket Kapoor: And sir, can you give the cash earnings for this quarter? What has been the cash earning?

Pradeep Rustagi: This quarter has been a bad quarter for Engineering Plastics because the application industries were all under shutdown, lockdown and therefore the volume of sales was very less. We normally do about 2,400 to 2,500 tons per quarter, but this quarter we could do only 1,200 tons. So this quarter is not indicative of the normal scenario.

Saket Kapoor: Full company sir, I am asking sir, what has been the cash accrual for this quarter, sir? Sir, we made a profit PBT of 39 crore?

Arvind Singhania: The very good indication is also that our total debt has reduced from Rs.142 crore to Rs.99 crore, so between 31st of March 2020 and 30th of June we have reduced our total liabilities by Rs.43 crore.

Pradeep Rustagi: So profit before tax plus depreciation minus the tax outgo amounted to about Rs.45 crore.

Pradeep K Rustagi: And that is corresponding to the reduction in debt.

Saket Kapoor: I am just talking about the receivable cycle also, is there any mismatch due to this COVID or the cash cycle is the same as it was pre-COVID?

Arvind Singhania: That is the same. The debtors are getting collected on time, there is no issues.

Saket Kapoor: There is no issues with the same and sir, now coming to the other part about, we customize the polymer, the specialised films are MB-1 and all, sir you mentioned that due to the lockdown in the international market, especially in the US, the growth will be back by how many quarter sir, I missed the point?

Arvind Singhania: Very difficult to say, but we expect that majorly only one product has got affected which is the MB-03, which is our key product in our Specialty Polymer portfolio because this was going for the commercial carpet applications and as you know commercial spaces are completely shut. Everybody is working from home in the US, so the commercial segment has taken a very big hit right now. So once the commercial activity starts again, this volume will revive.

Saket Kapoor: Two more questions sir, what would be the CAPEX figure for this year?

Arvind Singhania: The CAPEX figure outlay of Rs.45 crore.

Saket Kapoor: This is the expansion plus the maintenance CAPEX?

Arvind Singhania: No, this is other than expansion.

Saket Kapoor: Expansion will be how much for this year?

Arvind Singhania: In expansion because the investment from Ester will go as equity into the subsidiary and this year, we expect to be about less than Rs.100 crore expenditure.

Pradeep K Rustagi: As equity investment into wholly owned subsidiary, less than, 100 crore.

Saket Kapoor: And any partner also we are also contemplating?

Arvind Singhania: No partner.

Moderator: Thank you. The next question is from the line of Sonaal Kohli from Bowhead. Please go ahead.

Sonaal Kohli: Sir, you mentioned that the gross value add was about Rs.77 per ton for your normal commoditized is 12 micron unit and obviously the higher quality specialty ones have a higher margin, then you also mentioned that that this number may be Rs.50-Rs.55 going forward, why are we expecting this number to fall and would there be fall in quarter or two?

Arvind Singhania: I didn't say it would drop to Rs.50-Rs.55, it was earlier.

Sonaal Kohli: So what do you expect this number to be range bound like in July, I mean plus minus 5-10 either side, going forward in the next few months or quarters?

Arvind Singhania: It will be range bound between Rs. 65 and Rs. 80.

Sonaal Kohli: And how would the capacity additions globally impact you if we can't import and why should it impact and also are there any import duties which prevents imports from Ester?

Arvind Singhanian: Yes, there is an import duty of about 11%, there is import protection.

Sonaal Kohli: And how would global capacities impact you? Is there a way these could come into Indian market? Has it ever happened in a significant way?

Arvind Singhanian: Imports really don't matter in India because there is no import.

Sonaal Kohli: So, let us say sir if there is no capacity coming for next hypothetical costing for next 12 months before it becomes operational and assuming there is some capacity coming up globally, would the pricing the domestic market in any way get impacted because of the global capacities where demand in India is robust and there is a demand supply mismatch in India?

Arvind Singhanian: Like I said, please understand it fundamentally there is a very strong demand growth in polyester films globally and in domestic market, so it is going to continue to go up. You might have short-term glitches where you might be and this could happen month to month as well. It is not necessary that if today our margin is at Rs. 80 that is going to remain at Rs. 80 going forward for the next 2 months, there are various factors which come to play which cause the margin to reduce by Rs. 5 or Rs. 10 for a short period of time, again go back to higher margins. So largely I have mentioned that the direction is going to be strong for FY21 because no new capacities are coming up and demand is growing. It is very difficult to estimate exactly what the margin is going to be between now and March 2021.

Sonaal Kohli: And sir, new specialty capacity which you are talking about is going to come over, what kind of incremental data what it cost per ton at the overall level because it would be a small portion of, you talked about?

Arvind Singhanian: I have already mentioned that the offline coater, the volumes coming from there will give us additional contribution or let us say profit of anything between Rs. 50-Rs. 70 a kilo.

Sonaal Kohli: Yes, but the weightage would be relatively small, so I am just trying to understand what is that absolute number?

Arvind Singhanian: So volume at full capacity is close to 3,500 to 4,000 tons a year.

Sonaal Kohli: So the right maths would be 60-70 multiplied by 3 divided by, 50,000 is per year?

Arvind Singhanian: Say additional Rs.20 to Rs.25 crore profits from the coater.

Sonaal Kohli: Incremental?

Arvind Singhanian: Incremental.

Sonaal Kohli: This is the yearly number you are talking about right? Rs.20-Rs.25 crore incremental number compared to whatever it is?

Arvind Singhanian: Correct.

Moderator: The next question is from the line of Ankur Agarwal from RC Wealth Solutions.

Ankur Agarwal: What is the future for engineering plastic division?

Arvind Singhania: Engineering Plastics had started to do quite well in the first quarter of the calendar year, but then the COVID came and we had a sharp reduction because the downstream application industries were affected very badly which is largely auto and electrical, but we have seen a very surprising turnaround in the month of July. We have to wait and see whether this will be sustained, of course it will be way better than Q1 going forward, Q2 will be much better than Q1 and we hope that the revival will be strong in this current financial year.

Ankur Agarwal: BOPP film is there and the BOPET film is there could there be conversion between the two if any customer says this is costly and the other is cheaper so can there be conversion or both are the different?

Arvind Singhania: The market is very well segmented. There is a very small overlap.

Ankur Agarwal: What is the percentage of our export to our total sales?

Arvind Singhania: In June quarter, we had exports of about 30%.

Ankur Agarwal: Do we export BOPP?

Pradeep K Rustagi: We don't make BOPP, we only make polyester.

Ankur Agarwal: Do we export polyester film?

Pradeep K Rustagi: We only make polyester film and in this quarter 38% is the export in this quarter but going forward it could be less.

Moderator: We will move onto the next question that is from the line of Keshav Garg from Counter Cyclical Investment.

Keshav Garg: Sir, congratulations for great results sir, but you will recall that sir, 2011 also something similar happened like a typical commodity, so the spreads and realizations went up, we did 33% operating margin and sir, but from the next year sir, there was such a glut in the market that operating margin from 33%, they are reduced to 5% and they remained at low single digit for many years. Sir, like in a typical commodity, still this time also same thing will happen. Right now the spreads are very remunerative, so I mean additional capacity will come like you yourself are expanding capacity, so will everyone have sense subsequently definitely margins have to fall?

Arvind Singhania: So you remember only one part of 2010, you forgotten the other part apparently and let me remind you. You are absolutely right that 2010 this margins were crazy and then there was a crash, but there was a reason behind the crash. 30% of the domestic sales went away overnight because of the ban on gutka. If that hadn't happened that crash also wouldn't have happened and also you must not forget that in 2010, the total domestic demand was in the region of about 27,000-28,000 tons per month, so when 30-40% of your demand goes away, you are burdened with massive oversupply which was completely unexpected. Nothing of this sort is going to happen, of course there is no gutka remaining with us to be banned.

Keshav Garg: Right sir.

- Arvind Singhania:** So we don't expect any such crash would happen that was specifically because of the ban on gutka and gutka was consuming 30-40% of the domestic demand and the domestic demand totally was about 27,000-28,000 tons per month. Today, the demand is at 44,000 tons per month and growing at 12-13%.
- Keshav Garg:** Sir, much appreciated, I was comparing our company with our competitor, Garware Polyester and both companies have similar basically capacities, sir but their value-added proportion is almost 70% of their sales and their exports are also two third of their sales is exports and we are still at the value-added portion is like 15% in our turnover, sir, then why such a big discrepancies and what will it take for us to increase that value-added proportion that our competitors have been able to do?
- Arvind Singhania:** Not competitors, only one, Garware has not grown in terms of volume at all and I don't know what their plans are or their future are, but they are also into thick films where they have a very high proportion of value-added products. We don't have any thick films and plus they have had historically a product called Sun control and some other products, which is why they have a very high proportion of value-added products. Nevertheless, we are also on the same path of increasing our proportion of value-added products, 30% is our short term target, it is not going to stop there.
- Keshav Garg:** And also sir, if you could just tell us broadly that sir in FY17, our operating margins were 6% and they have increased to now over 25% in recent quarters, sir, how much has the realization changed of the polyester film that we are selling broadly sir, in FY17, what was the price and today, what is the price?
- Arvind Singhania:** I don't have the data available for 2017 readily.
- Moderator:** The next question is from the line of Chirag Singhal from First Water Fund.
- Chirag Singhal:** Sir, on the EBIT front which I just wanted to extend my earlier question, so you have generated operating EBITDA Rs.55 crore, a segmental EBIT in the film division against Rs.50 crore last quarters on a lower volume base, so if I convert that into per kg basis, then we are seeing a Rs. 10 per kg increase in EBIT on sequential basis, so Rs. 3-Rs. 4 is what we are understanding that this is because of the increase in spreads, so the other Rs. 6 is if you can explain, if you can throw some light on that?
- Pradeep K Rustagi:** We talked only of domestic markets commodity films, then you have metalized films, export, value added film and there were certain savings on the expense part also, so EBIT takes into account the raw material cost, conversion cost, selling cost, so we could give a savings in the other expenses also, so as a result, the EBIT margin has improved. Everything is not on account of value addition, we could save on administrative expenses, we could save on material handling expenses, these were also lower.
- Chirag Singhal:** Yes, that is very well taken sir, but it is like Rs. 6 per kg is not a small figure right, so not all of it would come from savings and cost and lower operating leverage would have also increased the cost, the lower capacity utilization would have also increased the cost?
- Pradeep Rustagi:** If you compare our results with the previous quarter, you will see significant savings in the administrative and other expenses and that is the category, we are saving Rs.6 to Rs.7 crore in this quarter over the last quarter.
- Moderator:** The next question is from the line of Sonaal Kohli from Bowhead.

- Sonaal Kohli:** Sir, you mentioned about some capacities coming on midyear in India, what kind of size of capacities would that be and considering the market growth, would that be able to observe these capacities if not in one month, over a couple of quarters, if you could throw some light on the total industry size and the capacity which is coming up in next 12 months in the midyear and how would the picture look like, let us say, 12 months from now?
- Arvind Singhania:** I have already mentioned this before. The demand growth in domestic market is about 12%-13%, if I take only 12%, today our domestic consumption is more than 500,000 tons per year. So if I take 12% on that it is 60,000 tons that almost 1.5 to 2 lines, per year additional requirement. So we don't expect our last year two lines got started they were absorbed without any major disruption. Next year two lines will start up. In fact, one line was supposed to have started up this year, the industry and the market needs this additional volume. We want this additional volume to come. We are not happy in starving the market.
- Sonaal Kohli:** So sir, this 6 lakh numbers which you talk about, is this like 2020 number or which is this 6 lakhs number, is this quarterly number which is annually, how do you arrive at the 6 lakh number?
- Arvind Singhania:** So the domestic demand is 45,000 tons per month. That comes to about 540,000 tons per year. Each new additional line is between 35,000 and 40,000 tons. Now, on a base of 540,000 tons, if you take 12% growth you are talking about 60,000 to 70,000 tons of additional demand which the two new lines next year will provide.
- Sonaal Kohli:** And sir, when would your capacity come up?
- Arvind Singhania:** That will come up in the second half of 2022.
- Sonaal Kohli:** And sir, typically can you start this capacity at full utilization on day one or it takes couple of quarters or couple of months to reach the full utilization?
- Arvind Singhania:** Very quickly, so we have more experience in this business and we can ramp up very quickly within a period of may be one to three months.
- Moderator:** The next question is from the line of Saket Kapoor from Kapoor Company.
- Saket Kapoor:** Sir, the point was that we came with dividend distribution policy and thank you to the directors and the team for doing so for the investor community. Sir, looking at the cash generations which we are envisaging and God willing as and when we succeed and looking at what the taxation part has been on the dividend on the part of recipient being taxed now, sir, could the Board look at buyback also as better mode of rewarding shareholders since it is a tax efficient way also of returning cash back to the shareholders. I know this is COVID period and it would be very difficult for us now to conserve cash, but since you are coming up with CAPEX also and the cash generation has not been affected, so what is the thought process and when is our AGM scheduled, sir?
- Arvind Singhania:** AGM is on 28th of August and all options are there. The Board will consider everything at the appropriate time and take a decision which will be most beneficial for all stakeholders including the shareholders for the Company.
- Saket Kapoor:** Yes, sir, only on the taxation front I was just thinking, it would be tax efficient for everybody?

Arvind Singhania: Please understand, I am making a very clear-cut statement that the interest and benefit of the shareholders is always very high in our priority.

Saket Kapoor: And sir, thank you for the team for putting up a good show and we hope for better numbers going forward as told by you that we will be running at full utilization levels for this coming quarter and definitely we are expecting a better show from the company going forward, any effect on monsoon or any?

Arvind Singhania: No.

Saket Kapoor: It will be a normal quarter for us going forward also in terms of production and dispatch number, sir?

Arvind Singhania: Right.

Moderator: The next question is from the line of Arnav Kapur, an Investor.

Arnav Kapur: Sir, you had mentioned a guidance of around Rs.70 crore this year and about Rs.300 crore in 3 years for your SP business, what should be the EBIT on that, will it be same at the level that you are operating?

Arvind Singhania: EBIT, as I had mentioned is going to be between 30% to 40% in this business and going forward also, we will maintain these numbers.

Arnav Kapur: And how much of this will exported?

Arvind Singhania: FY21 that I have said because of the drop in volume expected, drop in volume in MB-03, this year could be a bit of a hiccup, but otherwise going forward we are very confident of maintaining these numbers.

Arnav Kapur: And how much of this business is exported, like how much of the SP capacity is exported versus India or all US?

Arvind Singhania: Mostly US, Europe, some going to China now, China starting up.

Arnav Kapur: And on the last earnings call you had mentioned that you are looking for diversification in the SP business and about Rs.110 crore was approved, are you looking to do that? Are you looking to progress on that or it has been on hold giving COVID for now?

Arvind Singhania: Because of COVID reasons, we are having a relook, we will take a call on this in the next few months, we have put it on hold.

Arnav Kapur: You had mentioned Rs.300 crore by FY23 or 3 years for the specialty for the business, so we should continue with that?

Arvind Singhania: So in the next 3 to 4 years, this Rs.300 to Rs.400 crore is entirely possible from this business.

Arnav Kapur: And the sales from MB-06 or MB-16 which you are mentioning which is taking in this quarter, can you give a number or any range for that?

Arvind Singhania: Right now, we are going to start up very slow. There is no business which picks up and it goes to full level, but we are expecting the first order in the next week or two

and the potential that the market has given us would be anything between 2,000 to 3,000 tons per year.

- Moderator:** The next question is from the line of Shivalal Khandelwal, an Investor.
- Shivalal Khandelwal:** Sir, just I wanted to know why the expansion is done through subsidiary? Why not in the same company only and what will be debt equity portion of that?
- Arvind Singhania:** So the expansion we are doing in a subsidiary to take advantage of the lower tax regime that the honourable Finance Minister announced, so new companies can take advantage of tax rate at 15%. That is the reason why we are doing it through the subsidiary route.
- Shivalal Khandelwal:** And what would be the debt equity ratio in that sir?
- Pradeep K Rustagi:** 30% would be through equity, 70% would be through debt.
- Shivalal Khandelwal:** But that debt will be able to serve it quite comfortably then?
- Arvind Singhania:** Very easily because majority of the debt is going to be in the form of ECB, external commercial borrowing which is going to be at a very low cost, extremely low cost.
- Shivalal Khandelwal:** And one another question sir, next 2 to 3 year, how much export total turnover in export contribution we are expecting?
- Arvind Singhania:** For which product?
- Shivalal Khandelwal:** Total altogether?
- Arvind Singhania:** Well, SP is going to be all export, firm we will maintain anything between 20% to 30% in export volumes.
- Moderator:** The next question is from the line of Rahul Nadkarni, an Investor.
- Rahul Nadkarni:** Few questions from my side. First, in terms of the expansion that we are having by way of a separate subsidiary, so one, have we closed on the debt tie-up for that particular project or we are yet to tie up the funds in terms of lending?
- Arvind Singhania:** It is work in progress, it is happening and it will be frozen in the next few months, it is not a problem.
- Rahul Nadkarni:** But it would be an offshore debt?
- Arvind Singhania:** Part of it, not all of it. So out of the approximate Rs.350 crore debt, Rs.200 to Rs.220 will be in foreign currency and Rs.130 to Rs.150 will be rupee debt.
- Rahul Nadkarni:** Okay, you are still on the tie-up state for that, that was one question. Next question is in terms of the Specialty Polymer business, there was statement in the investor presentation that innovative PBT, the capacity that you had was significantly higher as compared to, if I take a quarterly average of the annual capacity which is contracted with this global chemical player, so let us say, the annual capacity goes over and above that for which the order is there, does the price remain same or is there?

Arvind Singhania: Yes, price remains same. Price is contracted, in fact the price is contracted on a fixed margin basis, so the price moves up and down based on raw material. The margin has been negotiated as fixed.

Rahul Nadkarni: Next question is in terms of Engineering Plastics business. So there because of lockdown, I understand there is serious impact on application industries. Just if you have broad break-up of variable and fixed cost of Engineering Plastic Business.

Pradeep K Rustagi: So, regarding the variable cost and fixed cost. The variable cost over and above raw material is in the range of Rs. 9.50 to Rs. 10.50 per kg depending upon and fixed cost including all elements of cost direct and indirect is about Rs. 10.50 to Rs. 11.

Rahul Nadkarni: Absolute number in terms of what is the fixed cost that is incurred?

Pradeep K Rustagi: For a year on a normal volume basis, it would be Rs.5.5 to Rs.5.6 crore.

Rahul Nadkarni: Sure, one more question in terms of now the cash level, so the company has been generating healthy cash accruals which is evident from the debt servicing that you guys are doing, debt payments, prepayments that you are doing, so I wanted to understand, I heard in the con-call that somewhere around Rs.40-Rs.45 crores is the cash generation on a quarterly basis, right?

Arvind Singhania: Yes,

Rahul Nadkarni: Now, if I look at the debt which is there, it is around Rs.98 crore out of which working capital is only Rs.26 crore, so in this quarter, with Rs.45 crore additional coming in, do you expect to do some prepayment on the term loan piece as well or you are looking at using those specific for equity infusion?

Arvind Singhania: We will have whatever is the cash accrual we judiciously used for prepayment of debt and for equity infusion into the subsidiary.

Rahul Nadkarni: And are you planning in terms of the debt that you would be taking at a subsidiary level, are you expecting to give a guarantee from the company, corporate guarantee?

Arvind Singhania: Yes, corporate guarantee will be given.

Moderator: The next question is from the line of N M Modi, an Investor.

N M Modi: Sir, that coating machine is now in full swing that has fully commissioned?

Arvind Singhania: No, it has not been fully commissioned. The machine we started up in May, but there are still travel restrictions, so we are unable to get the engineers to come in to finally fully commission it. So it is only partially commissioned.

N M Modi: He is to come from abroad, sir?

Arvind Singhania: No, he has to come from Mumbai.

N M Modi: Mumbai only, okay. Other thing sir I wanted to know, in segment, there are two types of revenue, one is polyester chips and film, so this polyester chips and film consist of polyester film and this thing, your polymer is Specialty Polymer?

Arvind Singhania: Yes, correct.

N M Modi: So sir, can I know the breakup of the last year turnover sir, this Rs.877.92 crore we have done the turnover, so what was the breakup sir, for this polyester film and Specialty Polymer?

Arvind Singhania: Out of this, Rs.73 crore of Specialty Polymer.

N M Modi: So the major portion is polyester film only?

Arvind Singhania: Absolutely.

N M Modi: So sir, I think 90% of our turnover consists of polyester film of this company as a whole.

Pradeep K Rustagi: 75% comes from polyester film, another 6% to 7% from polyester chips and 7% to 8% from Specialty Polymer and close to 14% to 15% from Engineering Plastics, last year breakup.

N M Modi: So more or less this year also would be same and whatever there will be shortfall because of USA in Specialty Polymer that will be compensated I presumed by new product you are launching?

Arvind Singhania: Again, whatever is lost this year on the Specialty Polymer basically MB-03 is going to be a permanent loss, I mean that the time gone, volume gone is gone. This volume will come back once things stabilize in the US. All the new volumes which will come from the new product will be on top of that.

N M Modi: But at the same time, we are launching some new product, so whatever the shortage we will write because of that, that will be compensated by the new product as you were telling about carpet?

Arvind Singhania: No, this year we will not be able to compensate that loss.

Moderator: We will move onto the next question that is from the line of Gaurav Lohia from Bowhead Investment.

Gaurav Lohia: Just wanted to clarify on Specialty polymer, you mentioned that you expect somewhere around Rs.300 crore revenues in next year time and EBIT margin of 35%, so would that mean that even US products will have the similar margin profile as your patented product themselves, MB-03 and that would mean somewhere around Rs.100 crore of this, are these number like way of in our expectation or would we have to do some CAPEX and that is why one should not be looking at this EBIT margin and there would be additional interest outgo?

Arvind Singhania: The blended margin in the Specialty Polymer business will be in the 35% region.

Gaurav Lohia: That is the current scenario, right, I mean going forward also it would

Arvind Singhania: Even going forward, the new products also will demand this margin numbers.

Gaurav Lohia: And would we need to do major CAPEX to be able to get to that Rs.300 crore and therefore the EBIT margin while may be higher

- Arvind Singhania:** No.
- Gaurav Lohia:** So, that would lead to still addition of somewhere around Rs.100 crore of EBIT in your current numbers, right?
- Arvind Singhania:** Right, no major CAPEX is required to reach at least Rs.300 crore.
- Moderator:** Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to the management for their closing comments.
- Arvind Singhania:** Thank you very much for joining us for the Q1 earnings call of Ester Industries and we look forward to talking to you again after close of Q2. Thank you very much.