



Ester Industries Limited

Q4 FY '21 Earnings Conference Call Transcript

May 19, 2021

Moderator Ladies and Gentlemen, Good Day and Welcome to the Ester Industries Limited Q4 FY '21 Earning Conference Call. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Gavin Desa from CDR India. Thank you and over to you, Mr. Desa.

Gavin Desa Thank you. Good Day everyone and a warm Welcome to Ester Industries Q4 and FY '21 Earnings Call. We have with us today Mr. Arvind Singhanian – Chairman, and Mr. Pradeep Kumar Rustagi – CFO.

We will begin this call with opening remarks from the Management following which we will have the floor open for an interactive Q&A session. Before we begin, I would like to point out that some statements made in today's discussion may be forward-looking in nature and a note to this effect was sent to you in the invite earlier.

I would now like to invite Mr. Singhanian to make his opening remarks. Over to you, Arvind.

Arvind Singhanian Thanks Gavin and thank you everyone for joining us today. I hope all of you and your loved ones are safe and healthy. As mentioned by Gavin, I have alongside me Mr. Pradeep Rustagi – our CFO. I will begin the call with an overview of the key operational highlights across our businesses post which Pradeep will walk you through our financial performance for the quarter.

FY '21 has been a historic year for us, a year wherein we have delivered our best financial performance till date best in over a decade. Profitability was at an all time high with bulk of the contribution coming from our legacy business namely film and engineering plastics. Specialty polymers after a strong FY '20 performance had a relatively soft year largely owing to COVID-related challenges, which impacted product offtake in FY '21. We, however, did witness a strong revival improvement in the last quarter of FY '21 which further gives us the confidence in believing that the next growth phase of the company will be largely driven by this business while film business will continue to deliver healthy performance and engineering plastics will continue to make meaningful contributions to the bottom line of the company.

Let me talk a bit more about the individual businesses starting with specialty polymers business:

As mentioned earlier, FY '21 was a challenging year for the business largely owing to COVID-19 led disruptions. As most of you may be aware, the business is largely export dependent and given the COVID related restrictions and lockdowns, which

were implemented during the year in some of our key markets including USA, the demand in shipment activities had to face severe challenges.

Performance of one of our key products stain resistant master batch which we use in the carpet industry in the USA was significantly impacted due to COVID-related restrictions. However, the situation has started to improve following the return to normalcy and the pickup of business activities in USA, which gives us the belief that we will be able to deliver a much better performance in FY '22. We witnessed the positivity in Q4 FY '21 itself which saw substantial improvement in offtake of MB03. Demand for other products namely innovative PBT continue to remain solid throughout the year. We exported 1,042 metric tons in FY '21 as against 465 metric tons during FY '20, and we expect similar traction in volume to continue going ahead. Similarly, as mentioned in our previous call, our new product launches LMC03, this is the low melt adhesive, finding applications in carpet industry and cationic dyeable master batch MB16 and the deep-dyeable master batch MB07, which find application in textile industry had been positively received by clients. Commercial sales as well has commenced and we expect from this product significant contribution to both top line and bottom line going forward. In addition to the above mentioned, we are also working on few other innovative products to keep the product pipeline healthy.

Going ahead, we believe that as this business scales up, it will help enhance overall profitability profile of the company. Our efforts in recent times have been directed towards broadening our client base and product portfolio, which will enable us to grow the business at a steady pace.

Moving onto the film business:

The business continues to drive the bulk of the revenue and profitability momentum of the company benefiting from the improved demand supply dynamics. Steady realizations, margins, productivity enhancement, and higher proportion of value added and specialty has positively contributed to the success of the business in recent years. The COVID-19 pandemic in fact has had positive impact on the economics of the business on the back of consumer's preference for package products for reasons of health, hygiene, and safety. Domestic demand as I have been indicating has been growing in the range of 11% to 13% annually. Demand from FMCG, pharmaceuticals continue to remain strong. We are confident that the same trend will continue going forward. Demand growth in the export market as well has been steady. The margins have softened in exports market in the just concluded quarter and there is a time lag between movement in raw material prices and corresponding adjustment in sales realization in export market. We, however, expect the spreads to remain healthy over short-to-medium term. As regard the expansion of BOPET film capacity, we are on course in implementation of the project in the State of Telangana. We are hoping to complete the project by October 2022.

Further, as regard to raising finances for the wholly owned subsidiary, we have taken advantage of benign interest rate environment globally and as such are raising certain amounts in Euro denominated term loan. Secondly, as specified in the past as well, while growth is a priority for us, we will not over leverage our balance sheet. The debt reduction we have undertaken in recent years is a clear reflection of that. The funding for the new project has been structured judiciously with the mix of Rupee and foreign-denominated currency. The blended cost of the debt is much lower than what it would have been had we raised the debt entirely in local currency.

The other initiative which we have been working on and I have been updating you all periodically as well has been the change in product mix. We have been working and are on track to meet our guidance of increasing the share of value-added products to 30% of total volume. Share of value-added products as of FY '21 stood

at 18%. The combination of higher scale and better product mix over the coming years should help us maintain the recent business momentum. At an overall level, we believe film business will continue to remain a key component of company's revenue and profitability progression.

Lastly, engineering plastic business:

FY '21 has been a landmark year for this business. Despite starting on a soft note, it has delivered its best performance till date. Revenues and profitability have jumped multifold on the back of strong demand from the end-user industries and unprecedented margins. The business was going through challenging phase over the last couple of years. Strong auto demand following people's preference to travel in personal vehicles and demand growth in other application industries coupled with pickup in optical fibre demand and work from home culture is gaining strong momentum have all contributed positively. Rising trend in polymer prices as well as shortage of base polymers have resulted in high sales realization at unprecedented margin expansion as can be seen from the financials. Further, as mentioned earlier, our strategy of relocating the plant to serve the customers more efficiently in a cost-effective manner and cut down on logistical expenses should help margin expansion by 200 basis points. Also given that existing installed capacity had been fully utilized and there is reasonable demand growth, we are also contemplating an investment towards setting up a new extruder to help us meet the growing requirements of our domestic and overseas customers. Going ahead, we believe the momentum to sustain over the coming years and expect meaningful contribution from the business going forward.

To conclude:

We believe we are well positioned to deliver consistent growth and profitability and create value for all our stakeholders. All the businesses are well poised to embark on their next growth phase. We expect specialty polymer business to rebound and perform well in FY '22. Film and engineering plastic business as well should maintain their recent momentum and deliver growth over the coming years. That concludes my opening remarks.

I now hand over the floor to Pradeep to walk you through our financial performance. Thank you.

Pradeep Rustagi

Good Afternoon everyone and thank you for joining us today. I will quickly walk you through our financial performance for the quarter and year ended March 31st post which we can begin the Q&A session.

Starting with the quarterly performance:

Revenue from operations stood at Rs. 297 crore as against 254 crore reported during Q4 FY '20, that is higher by 17% while on a yearly basis, the same stood at Rs. 992 crore as against 1039 crore lower by about 5%. The degrowth on an annual basis is largely owing to significant drop in chip sales post fire in primary heater on March 19, 2020, and the COVID-19 related challenges we have faced during the first half of the fiscal.

The second half of the fiscal though has seen a sharp pickup across our businesses, which augurs well for FY '22. Primary heater 5 has now been restored and we have resumed sales of chip from the month of March '21. EBITDA for the quarter stood at Rs. 60 crore as against Rs. 53 crore generated during Q4 FY '20 higher by 13% while on an annual basis, the same stood at Rs. 244 crore as against Rs. 198 crore garnered during FY '20 that is higher by 23%. While the growth was largely owing to

solid performance of film and engineering plastics businesses Specialty polymer business as well made a positive contribution towards the end of the financial year. Finance cost for the quarter stood at Rs. 5.69 crore as against 4.84 crore outgo reported during Q4 FY '20 higher by 18%.

On an annual basis as well the same declined by 24% to Rs. 18.5 crore as against 24.4 crore. As of March 31, 2021, our outstanding interest bearing term debt net of free cash stood at Rs. 114 crore while interest bearing working capital liabilities stood at Rs. 43 crore. Interest bearing debt net of free cash as a multiple of annual EBITDA has remained at a healthy level of 0.64x as of March 31, 2021. We are committed towards maintaining better than prudent debt equity level. We will not let go of the principals of prudent financial management and will not do anything to exert undue pressure on our balance sheets.

As stated by CMD as regard to raising finance for the wholly owned subsidiary, we are taking advantage of benign interest rate environment globally and as such are in process of raising certain amount in zero denominated term loans. The depreciation for the quarter stood steady at Rs. 8.7 crore while on a yearly basis, the same stood at Rs. 35.2 crore. Profits for the quarter stood at Rs. 34 crore as against Rs. 37 crore generated during Q4 FY '20. Profit after tax for the quarter is lower than quarter ended March '20 as benefit of lower tax rate that is 25.168% for computation of deferred tax liability was accounted for in the March '20 quarter, but for this PAT for the March '20 would have been Rs. 26.6 crore. On annual basis the same stood at Rs. 142 crore as against Rs.100 crore reported during FY '20 that is higher by 43%.

To conclude:

I would just like to reiterate that we are confident of all our businesses delivering consistent growth going forward, the fact that we were able to deliver a growth over FY '20 despite Q1 being impacted by COVID related challenges is reflective of the core strength of our businesses. With macroeconomic environment getting better, we believe the coming years will be good for us. Thank you.

Moderator

The first question is from the line of Sonaal Kohli from Bowhead Investment.

Sonaal Kohli

Mr. Singhania congratulations on your results, I have couple of questions, firstly on the specialty polymer business side, if you could give a sense of how the outlook is in the first half of the year versus second half of the year, as far as the US business is concerned on the specialty polymer business side, we are seeing US market opening up significantly in light of the fact that some of our products cater to the hotels, how are the sales for the first half of the year versus the second half of the year and do you have any kind of order book which makes you confident about the business for 2022?

Arvind Singhania

We saw a pickup in the specialty polymer business in the second half of FY '21 and we recorded a turnover of Rs.25 crore in Q4 of FY '21 and going forward this quarter also, we are seeing similar numbers so for the whole year I would imagine we should be looking at Rs.110 plus crore of turnover compared to Rs.59 crore in FY '21.

Sonaal Kohli

Okay, and do you expect the second half to be stronger than the first half as the US market opens up?

Arvind Singhania

Yes, I expect the second half to be stronger than the first half.

Sonaal Kohli

This number is lower than obviously we had thought of few quarters back, so is it because of the delayed opening of the US economy and all our prospects for 2023

still intact because you were talking about three-four times increase in business over a two-three period, so how are those prospects according to you are they still intact or something has changed we should know?

Arvind Singhaniania No, I think the US economy will grow very strongly and our indications for growing this business multifold over the next three to four years remains intact.

Sonaal Kohli Sir, you mentioned about Rs.110 crore revenue target for this year, but considering you have only done Rs.25 crore in Q4 and you say that second half was even better, and US market would obviously over the next one-two quarters hopefully open up completely, what am I missing in between the numbers, is Rs.110 crore more of a conservative number because we do not know what is going to happen?

Arvind Singhaniania I am being a little conservative, I would like to perform better than I tell you and I think we will. One of the things is that one of our extruder which remains uncommissioned since May last year it was finally going to get commissioned in April and then we had the second wave of COVID that has again got delayed by a few months, so that is a bit of an impediment that is still standing in our way, so we are not so well. If that had started up in April, we could have expected the turnover to be more like Rs.140- Rs.150 crore.

Sonaal Kohli So demand is not a problem, it is just that demand has been postponed according to you, it is the supply which is the problem from our side?

Arvind Singhaniania No, only on one product the supply is a problem.

Sonaal Kohli Understood, and is that one of your key products?

Arvind Singhaniania No, that is a new product which we just started sampling and we were hoping to start volume sales in May and June, but this equipment could not still be commissioned because of the second wave of COVID, the engineers had to come from Austria and because of this COVID problem again they have postponed, nobody is going to send their engineers in this situation existing in the country.

Sonaal Kohli Sir, as far as BOPET business is concerned, when do you expect it to come back to normalcy in the June to September quarter, I would presume that this quarter is going to be weak in general for the entire industry, is that a fair assessment? and Secondly, on the demand supply equation would you think that supply side could get delayed by a couple of quarters?

Arvind Singhaniania If you are talking about BOPET film, capacity creation got delayed from last year to this year, new capacity was supposed to start in September-October this year, but because of this second wave of COVID, we feel that this will get further delayed.

Sonaal Kohli Okay, and Sir on the outlook of the business, is it fair to assume that the coming quarter should be relatively weak because of obviously lockdowns everywhere, but from September quarter would it come back to normalcy?

Arvind Singhaniania June quarter will be impacted because of COVID in BOPET film. Specialty polymer will do fine. BOPET film and engineering plastics will get impacted in June quarter because of COVID, but from September quarter God willing COVID coming under control, September quarter should come back to full normalcy.

Sonaal Kohli Sir, as far as the outlook on BOPET margins are concerned, do you expect them to improve compared to current rate as demand continues to grow and supply gets

postponed, any comments on that and how do you see in next 12 months for you in that business?

Arvind Singhaniania Again like I said we have to wait for this COVID wave to subside. If this COVID wave subsides in the June quarter and normalcy returns then September quarter we will see improvement in margins.

Sonaal Kohli As compared to the Q4 quarter is that what you are saying?

Arvind Singhaniania Yes, compared to June quarter, June quarter has been impacted because of COVID.

Moderator The next question is from the line of Rahul Nadkarni, Individual Investor.

Rahul Nadkarni My first question is in terms of looking at the debt numbers there has been some amount of increase about Rs.10 odd crore increase in the term debt amount, just wanted to understand where exactly is this term debt getting utilized and what will we expect the peak get levels as a consolidated to be like in the next 12 months or so?

Pradeep Rustagi We have taken term debt, it is a long term source of fund that we have opted for. The funds that we have received will be used for CAPEX that we are undertaking within Ester in the following year '21-22. On a overall basis, the term debt remains the same, the extra debt that we have taken the Rupee debt has partly gone for reduction in the utilization of working capital and partly for CAPEX, and as and when we pass time we will spend this money on the CAPEX.

Rahul Nadkarni So is this a CAPEX which is pertaining to the shifting of the engineering plastics plant also?

Pradeep Rustagi Yes, that is part of the CAPEX.

Rahul Nadkarni By what time do we expect to complete this shifting of the plant for engineering plastics?

Pradeep Rustagi We will be through with this by end of the financial year.

Rahul Nadkarni My another question was on in terms of the wholly-owned subsidiary there has been a Rs.96 crore of CAPEX investment which has already been made into the entity, so what kind of physical progress has the plant completed in percentage terms if you can give some number as to what is the sort of progress that is happening in terms of construction of that plant?

Arvind Singhaniania The activity is absolutely on schedule on time, the expected startup is September-October next year, we are absolutely on time, land leveling and site development has been completed, now we are just ready to start off the civil constructions, so we are all scheduled as far as the project is concerned.

Rahul Nadkarni Okay, so land acquisition and land leveling everything has been complete?

Arvind Singhaniania Yes.

Rahul Nadkarni On the specialty polymer business, in one of the questions you answered that you expect around a turnover of Rs.110 crore, so what could be the margins look like for FY '22, it would be around 30%-35% levels or any guidance you would like to give on that?

Arvind Singhania 35% to 40% EBIT margins.

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

N. M. Modi Sir, Good Evening, my question was regarding employees cost, which has gone from Rs.54 crore to Rs.68 crore? Any specific reason for the increase?

Pradeep Rustagi So what happened that in the March quarter, we gave increment to the employees which were effective from April 1, 2020, and the reward for the good performance of '19-20 performance-linked incentive was also paid in this quarter and we have also made a provision of PLI to the eligible employees for the performance of '20-21 in this quarter, so there is an extra element of cost in this quarter, which will get rationalized in the June quarter, it will come back to the normal levels in June.

N. M. Modi Other thing Sir this balance sheet is showing investment of Rs. 96.35, so it is to subsidiary company, Sir?

Pradeep Rustagi Absolutely, it is the amount invested into the subsidiary, it is shown as such in the accounts.

N. M. Modi My last question Sir this Specialty polymer division turnover is shown in which segment Sir in segment result?

Pradeep Rustagi It is part of the film segment because the segmental reporting requires that if the turnover is less than 10% of the company's turnover that segment can be clubbed with the highest segment, but in the investor presentation we have reported separate numbers for the specialty polymer also.

N. M. Modi Sir, but here in segmental results it is included into polyester chips and film?

Pradeep Rustagi Film business, correct.

Moderator The next question is from the line of Ravi Nanda, Individual Investor.

Ravi Nanda Sir, I have couple of questions, my first question, what is the status of the product Ester HR03, hot fillPET?

Arvind Singhania There is no movement of that, it is not a viable product right now, it is not being sold for the last four or five years.

Ravi Nanda Sir, MB06 and MB07, you have said that commercial sales have started, so can you expect good sales in this year?

Arvind Singhania We will start selling good volumes from this current financial year.

Ravi Nanda Sir, in last con call you had said that Rs.150 crore you will do in this specialty polymer and Rs.400 crore for next year, but you are saying that you will only do Rs.110 crore, what is the reason?

Arvind Singhania I just explained that in the first question, one extruder which we were expecting to be commissioned in April has again got postponed because of COVID because the engineers from Austria could not come, last minute they had to cancel because of COVID.

Moderator The next question is from the line of Pandurang Pandit, Individual Investor.

Pandurang Pandit Sir, most of the questions I wanted to ask have been asked by others, the only question I have left now is about how the crude oil prices are affecting our margins in domestic and export markets?

Arvind Singhania The crude oil prices I have always maintained before really do not have a direct impact because it is a pass through model, the margins for polyester film are decided by demand supply situation of the primary product which is polyester film. As far as specialty polymer business is concerned, there is absolutely no impact because our margins with the customers are fixed and the pass through the raw material, so really there is no direct impact of crude oil or the raw material prices.

Moderator The next question is from the line of Pratap Makwana from Forbes Marshall.

Pratap Makwana Good Evening all and many congratulations for commendable profit in this decade, I have three questions, so what is the guidance of Q1 '21 which is a current quarter compared to the Q1 '20? My second question is by when Telangana and Dahej revenue will be realizing the top line as well as bottom line? My last question being such a commendable profit in the decade so far, we should market in the better way while the advertising in the news agency so that informed investor can take a better call, in terms of the company's performance and the company's guidance?

Arvind Singhania As far as guidance for Q1 of FY '22 is concerned, there has been an impact of COVID, it is very difficult to assess what it will be because the quarter has not ended, we are in the middle of the quarter exactly. It depends on how COVID pans out over the next few weeks, but definitely there has been some impact. April was not so bad, we still manage to do quite decently well in April but May and June, May has been impacted, June we have to wait and see, so it is very difficult for us to give you a guidance of what is going to happen exactly. In any case, we do not give a quarter-on-quarter guidance. As far as Telangana is concerned, we will start, we hope to commence production by September-October of '22, so revenue from that should start coming in by the third quarter of FY '23. EP shifting will finish by end of the financial year and revenue is not going to change because we will continue to sell. There is going to be no reduction in revenue impact after first quarter of '23 we will start seeing improved revenue because new capacities will come in.

Pratap Makwana So logistic expenses will be reduced from the next year onwards?

Arvind Singhania Yes.

Pratap Makwana The last point on the marketing and advertising?

Arvind Singhania We have taken note of your suggestion and we will look into it.

Moderator The next question is from the line of Namit Mehta from KC Capital.

Namit Mehta Sir, congratulations on a great quarter, just a couple of questions from my side, one if you can just help walk through the economics on the new CAPEX, the Rs.587 crore, how does that work in terms of the revenue potential and what we see in terms of return on that capital?

Pradeep Rustagi Broadly, the turnover would be in the range when the utilization is achieved, we can look at the turnover of about Rs.700 to Rs.750 crore with EBITDA margins of 23% to 25% and IRR would be about 17% to 18%.

Namit Mehta Understood, is that the project IRR or is that the IRR on the equity portion?

Pradeep Rustagi No, it is the project IRR.

Namit Mehta Got it, so presumably the IRR on our equity portion would be?

Pradeep Rustagi IRR for the equity would be higher.

Namit Mehta That is really helpful and then the second part of that is how different could this new plant be from our old plant in terms of efficiency in terms of differences in machinery and so on?

Arvind Singhania It is chalk and cheese, in our existing facility our oldest line is only a 3.5 meter line which started in 1998, second line is 6.5 meter started in 1997, third line is 8.5 meters which started in 2011, this new line is 10.5 meter so one line is going to give you equivalent production of three lines put together in Khatima, so the economies of scale, the total state of the art technology, the productivity, the output is going to be phenomenally higher, the costs are going to be phenomenally lower, so it is going to be a different ballgame altogether.

Pradeep Rustagi Operating efficiency would be much more, much better in this.

Namit Mehta Understood, and would this new technology be used across all the new capacities coming up from all the different players as well or is this in a state of the art technology that we are using and we have some access to for some region?

Arvind Singhania Well, I would imagine that I am not sure exactly what width of line we have got or what technology they are using, we are not privy to that, but I would imagine the technology wouldn't be too far different from ours.

Namit Mehta I was just asking if you can touch upon the BOPET spreads as well, my guess is that we make additional money when the spreads increase as well versus just price increases of both supply as well as demand, so if you can just walk us through what has happened with the spreads and how that has impacted our margins?

Arvind Singhania What period are you looking at?

Namit Mehta Just the past quarter and what is happening currently?

Pradeep Rustagi We are talking about 12 micron base film, commodity film, we are talking about the selling price, value addition and raw material cost of the that product, so in March quarter and December quarter we got the same amount of value addition though the raw material cost increased, so we maintained the value addition at Rs. 46 both in December and March quarter, and currently so the April was between the Rs.41 to Rs.44 range kind of number for 12 micron films and currently we are about Rs. 35.

Moderator The next question is from the line of Saket Kapoor from Kapoor & Company.

Saket Kapoor Sir, thank you for the opportunity, I missed your earlier commentary, sorry for the sake of repetition also, firstly Sir how is the industry placed in terms of utilization levels and as I heard you that the CAPEX is also now coming up with a lag, so if you could give some more color on the BOPP film segment utilization level for the industry and as a company as a whole?

Arvind Singhania We are not on BOPP, so I cannot comment on that.

Saket Kapoor On the BOPET front Sir?

Arvind Singhania BOPET capacity utilizations are very high, but right now because of COVID the capacity utilization have fallen but I do not have exact numbers right on, it will take me time to gather those numbers once the quarter is over.

Saket Kapoor Sir, for us what was the average utilization levels for the last quarter and the year?

Arvind Singhania Almost full capacity.

Saket Kapoor Sir, if we take the raw material basket, how have the raw material prices behaved and how have they played post March?

Arvind Singhania Raw material prices have remained strong, in fact have been pretty steady but over the last few months they have gone strong, but right now they are remaining pretty steady, am I right Pradeep?

Pradeep Rustagi Yes Sir, after December it has started to rise from December and March was very high, but now it is almost stable per kg of chips at about Rs. 71-Rs. 73 kind of range.

Saket Kapoor The mix Sir between PTA and MEG, what was the average prices for the March quarter and currently Sir if you could give some more color?

Pradeep Rustagi PTA prices for the March quarter was Rs. 56 a kg and MEG was about Rs. 48 a kg and the per kg of chips cost was about 64.5.

Saket Kapoor And the prices currently Sir?

Pradeep Rustagi The current PTA price is about Rs. 62, MEG is Rs. 53 and PTM put together per kg of chips, 71.

Saket Kapoor So MEG prices have moved up from 48 to 53?

Pradeep Rustagi Yes, MEG prices have gone up and PTA prices also have gone up, if you look at the average of March.

Saket Kapoor Any reason Sir is it the demand led or any supply-led difference?

Arvind Singhania There was both, there was a shortage of PTA and it was both supply and demand led, demand for polyester products across the board whether it was PET resin for bottle grade or textile grade or film, yes the demand for polyesters across the globe, across the product line was very, very strong.

Saket Kapoor Currently Sir what will be our average cost of fund and when is our rating review due Sir?

Pradeep Rustagi Last year in the month of August, we are now out with audited results, we will soon take up the matter with the rating agencies and ask for a review of the rating. Our average cost of debt last year was high at about including the bank charges, bank charges form a very significant portion of borrowing cost was about 11%, but at the current rate that we are getting that is the average of the last year, current we would be about less than 9%.

Saket Kapoor The term loans Sir for the new projects what were the rates at which it has been closed?

Pradeep Rustagi There are two components to the term loan for the new project, one is the foreign currency which is at about less than 2% per annum. The Rupee debt would be less than 9% and weighted average cost including working capital Rupee term loan is less than 5.5.

Saket Kapoor Sir, how much we have spent, I missed the cash flow part, how much have we spent on the new facility and what are we going to spend in the coming years?

Pradeep Rustagi So Rs.96 crore has already been invested and spent in the new company, and the balance that we need to do is about Rs.80 crore which we would do within the current Financial Year '21-22 and some portion will be spent in the first half of '22-23.

Moderator The next question is from the line of Surendra B., Individual Investor.

Surendra B. Sir, congratulations for good set of results, my question is about this film plant capacity, our Khatima plant was established in 1988 or roughly back to that with a capacity of 57,000 tons whereas now the new plant capacity is 48,000 tons at Telangana, if you see in normal course of industry, whenever the new companies are setting up expansion, the plant capacity is always higher roughly by 50% or 100%, I want to know what is the rationale behind this your logic for this small plant capacity?

Arvind Singhania Small plant capacity? The line is one of the most highly productive lines and technology available.

Pradeep Rustagi The 57,000 is out of three production lines, the 48,000 would be out of one production line, so 57,000 has been built over a period of last 20 years by putting up different lines and this is one single unit of production.

Surendra B. Sir, I mean to say if you see any company's new production, their capacity is always double from their plant or at least 50% more so I want to say why are not you putting 1 lakh capacity ton plant?

Arvind Singhania We have to be prudent in our expansion. It is not like that we keep on increasing capacity wildly. From 57,000 tons, we are increasing by another almost 50,000 tons, almost we are doubling our capacity.

Surendra B. Sir, second thing is this engineering plastic plant we are relocating if we put a new plant in western region then will be able to serve pan India instead of relocation? Again, for North India you will have transportation cost?

Arvind Singhania All our raw materials are imported so we will save one way cost if we put the plant over there and our net increase in EBITDA margin will be 2% just by relocation.

Pradeep Rustagi Because currently out of the existing production, we are also selling in South, we are also selling in west and we are also exporting,.

Moderator The next question is from the line of Sonaal Kohli from Bowhead Investment.

Sonaal Kohli Sir, as far as you BOPET business is concerned, can you give a percentage of mix of revenues in December quarter and March quarter from exports and what was the value addition in exports for you for 12-micron business, and how do you expect this to change over the course of next one or two quarters on export side?

Pradeep Rustagi I will give the revenue numbers for the film business from domestic and export for March and December, exports in terms of value in December quarter was Rs.50

crore and in the March quarter the exports of film has given us a turnover of Rs. 60 crore, so there is an increase of Rs.10 crore in exports in the last quarter. The domestic sales last quarter was Rs.122 crore which has now increased to Rs.131 crore, so overall the revenue from film has gone up from Rs.172 crore to Rs.192 crore.

- Sonaal Kohli** Sir, as far as your value addition is concerned on the export side how was it in December quarter versus March quarter and how would you expect that going forward, is there any lag in export between raw material and the price increase because your business at least in the domestic market is completely a delta business and depending demand-supply you are able to pass through, if you could explain some dynamics about the export business and how the value addition has varied across three quarters and how do you see an outlook whatever you are seeing right now?
- Pradeep Rustagi** The value addition in domestic market in the quarter ended December and March were almost same, there was the drop in the export market because there was increase in the raw material and which could not be immediately passed onto in the export market because there is a certain amount of time lag that is required for the adjustment in the selling prices, so there was a drop in the value additions in export market, but domestic market it was almost same as December quarter.
- Sonaal Kohli** And outlook for your export business, would you expect a June quarter or you know September quarter export business, value addition to be higher than what we saw in March quarter?
- Arvind Singhania** I would imagine it to remain a little subdued but September quarter will improve.
- Sonaal Kohli** Sir, as far as specialty polymer business is concerned, do you have any outlook for 2023 it is a little far away so we are not looking at the number, broadly a range what we could expect because in 2022 you said that at least for the first one or two quarters we may lose certain revenues because of supply costing on your side not because of demand, so what would be your expectations for 2023 for specialty polymers or even a range would do, we are not looking at any....
- Arvind Singhania** I have already mentioned that in the beginning of the call with you Sonal that specialty polymer business will perform phenomenally better than FY '21.
- Sonaal Kohli** Sir, I was asking 2023, not '22, '22 you already mentioned?
- Arvind Singhania** So '23 will be even much better than '22.
- Sonaal Kohli** So do you think you can grow at 50% kind of rate for next couple of years?
- Arvind Singhania** I think we might do better than 50% in '23 over '22.
- Sonaal Kohli** Do you think the run rate is long enough for you over next three or five years for your polymer business, it is not one, two year, more like a five years?
- Arvind Singhania** I had maintained that we will be targeting over the next three to five years, so we have Rs.400 to Rs.500 crore in this business.
- Sonaal Kohli** You said Rs.400 to Rs.500, did I hear you correctly?

Arvind Singhania Yes.

Sonaal Kohli Last thing Sir at certain stage would you be open to a possibility of a demerger I know specialty polymer is currently small, but let us say two-three years down the line considering the different kind of ROCE these kind of businesses command much better valuation, did you ever think about this possibility or it is a strict no for you or you will be willing to relook at that few years down the line?

Arvind Singhania We are open to all possibilities, whatever will give us the best option for valuation we will exercise those options, but we will look at it at the right time. Right now is not the time to look at it, the business has to grow to a substantial size.

Moderator The next question is from the line of Rahul Nadkarni, Individual Investor.

Rahul Nadkarni I had just a couple of questions on the engineering plastics business, like you said the margins were around 27% for your engineering plastics business in Q4 which was substantially high, so what do you think is the sustainable level for FY '22 if you can look at from an engineering plastics business in terms of revenue as well as your EBIT margin targets for '22?

Arvind Singhania We were expecting very good numbers for FY '22, but June quarter is definitely got impacted because of COVID. If COVID had not happened, we would have done phenomenally good numbers in FY '22 as well, but we have to wait and see how June quarter first pans out and how soon COVID comes under control. If COVID comes under control in June, September quarter onwards, we should expect good margins again, so it is largely COVID connected.

Rahul Nadkarni Even let us say by June this will come under control, then should we expect FY '21 revenue numbers to sustain for '22 as well?

Arvind Singhania I would imagine yes, if June comes under control, we should be able to come close to those numbers.

Rahul Nadkarni And margins of a similar level around 20%?

Arvind Singhania Similar, I would not say same but similar levels.

Rahul Nadkarni What is the kind of CAPEX that we are incurring for this relocation of plant for engineering business how much of it has already been incurred for building?

Arvind Singhania About Rs.36 crore is the CAPEX, very little has been spent right now, we just bought the land. The payment for the land is being made, so the money will really be spent now onwards over the next 12 months.

Rahul Nadkarni Okay so Rs.36 crore is the CAPEX that you are incurring right now?

Arvind Singhania Yes, including new capacity.

Rahul Nadkarni This one for polyester films just one question, there was a contribution of value-added products which was mentioned that around 20% for Q3 and for the full year it stands around 18%, do we have a specific number for Q4 as in how is just for trend purpose, how has been shaping up?

Pradeep Rustagi I will give you the quarter-by-quarter number, so in the first quarter we did 15%, then we increased September quarter was 16% then in December it was 20% and March

we are at 21%, this is percentage of quantity of VAP (value-added products) products as percentage of total quantity.

- Rahul Nadkarni** In terms of value also it would be similar?
- Pradeep Rustagi** Value would be higher.
- Rahul Nadkarni** What would be the expected levels of margins for the films business in general as a whole for FY '22 that you are looking at in terms of EBIT margin?
- Arvind Singhanian** We have to wait and see, let us see how June quarter goes because how the COVID pans out, very difficult to say.
- Rahul Nadkarni** Range bound it would be between 20% to 25% ballpark?
- Arvind Singhanian** If COVID comes under control by June yes it is possible around 20% to 22%.
- Moderator** The next question is from the line of Ashok Shah from LFC Securities.
- Ashok Shah** Sir first question is promoter has increased the holding so what is your future plan to increase the holding?
- Arvind Singhanian** We will see whenever we get the opportunity, we will do it.
- Ashok Shah** So you are still interested to increase the holding?
- Arvind Singhanian** Yes.
- Ashok Shah** Second question is we are doing lot of CAPEX over last two years and next one or two years, so we are paying an interest of around 10% approximately whereas if we raise equity fund on a current price or current valuation of Rs.1,000 crore of market share and whatever fund is raised, then the cost of servicing via dividend would be around less than 3%, so is it not makes sense to increase the equity rather than go for debt?
- Arvind Singhanian** The cost of equity is always higher than the cost of debt and we have a very prudent debt level so we do not particularly need to raise equity.
- Ashok Shah** So for future expansion, we do not have any plans to raise the equity?
- Arvind Singhanian** Whatever major expansions we have are on the plate right now, beyond this we do not have any major expansions on the plate or plans.
- Ashok Shah** What would be our dividend distribution policy, is it same as current year and last year?
- Arvind Singhanian** Yes, we had declared, or the Board has recommended a final dividend of about 1.9 per share.
- Ashok Shah** Plus Rs. 1.50 in the interim?
- Arvind Singhanian** Yes, so this tantamounts to about distribution of 20% of the profits.
- Ashok Shah** Okay and do we have any institutional investor in our company?

Arvind Singhania Nothing substantial.

Moderator The next question is from the line of Nitin Gandhi from KFL Trade Capital.

Nitin Gandhi Thanks for taking my question, Sir can you share some more thoughts on engineering plastic, new products innovations and other things or approval linked pipelines and what do you see the big triggers coming over next 12 to 18 months based on this approvals?

Arvind Singhania We had lots of products in the pipeline, I am sorry I do not have that data available to talk to you about it on hand, I mean this is not normally a platform to discuss products development, in any case as far as the product development is concerned, it is very confidential and we could not discuss it openly.

Nitin Gandhi No, that is true, but like generally the approval process time and big triggers comes from only for the few approvals?

Arvind Singhania We have a very healthy pipeline of new products under development, so that is continuing and it will continue in the future as well.

Nitin Gandhi Post expansion relocation simultaneously what will be our capacity for engineering plastics?

Arvind Singhania The capacity for engineering plastics will grow to about 20,000 tons.

Nitin Gandhi What are current utilization levels?

Pradeep Rustagi In Engineering plastics we are almost fully utilized and that is the reason there is a need to have another extruder to serve the growing demand, we have almost fully utilized

Nitin Gandhi So post Austrian visit this extruder will go-live, correct?

Arvind Singhania It is for specialty polymer not for engineering plastics.

Nitin Gandhi Okay this extrusion for engineering plastic when we expect this to go-live only after 12 months?

Pradeep Rustagi Yes, in the new location.

Nitin Gandhi Will that help for some better margin or higher value products?

Pradeep Rustagi Of course it will help us in broadening the product profile of the company.

Nitin Gandhi Sir, you shared some Rs.400 to Rs.500 crore revenue possibility for increased to five years for specialty polymer, when do you see things for the engineering plastics?

Arvind Singhania Well we are increasing capacity, right now we are fully sold out except for June quarter because hit by COVID and once the new capacity starts by end of this financials, we will start increasing our sales from that, so we should be growing at about 10% to 15% per annum on that.

Nitin Gandhi That is pretty modest and very conservative looks like based on your past?

Arvind Singhania The industry is growing in single digit.

Moderator The next question is from the line of Aravn Kapoor, Individual Investor.

Aravn Kapoor Sir, Good Evening, hope you and your family and Ester family is also doing well, I just have couple of questions, most of them have been answered, you just right now mentioned that you are looking at 10% to 15% revenue growth on EP, more than 50% on SP business, is there a similar number that you can give for also the film business?

Arvind Singhania Film business we are constrained by capacity, so there will not be any major increase in film revenues until the new lines starts up in October next year.

Aravn Kapoor Okay, and then on the SP level you just mentioned that the extruder could not happen because of the COVID situation, can you give a number on what was the revenue that you have lost given that has not been able to happen?

Arvind Singhania Well we were expecting revenues of about Rs.35- Rs.40 crore from this machine for the whole of FY '22, now depending on when the machine will start up that amount of revenue is lost.

Aravn Kapoor Okay, roughly we could assume that you would have hit like Rs.150 or odd guidance you are saying Rs.110 next year?

Arvind Singhania Rs.140 crore- Rs.145 crore but unfortunate that this COVID came again and engineers had to postpone their visit again.

Aravn Kapoor That is pretty unfortunate, and you gave the number Rs.400 to Rs.500, if I do the math it is basically over the next three years you should be able to hit 400 right easily?

Arvind Singhania Yes.

Aravn Kapoor One question on the SP business only, can you share some color on the number of customers that you have in this business and what are the top five customers account for the revenue?

Arvind Singhania We do not have, this specialty polymer business is a very different commodity where you have dozen of customers, here you have a handful of customers, so each product may have maybe two to three customers. We only have a handful of customers in specialty polymers as well.

Aravn Kapoor Okay, any steps you are taking to increase those customers, right now maybe like given the COVID situation is becoming better in US?

Arvind Singhania Like I said each product has limited customer set, if each product has such a vast customer base then it would become like a commodity.

Aravn Kapoor Fair enough, I am just trying to understand like from a five to 10 year perspective like how can we grow the customer base given that you know you have earlier mentioned that you are trying to create a market for the SP business?

Arvind Singhania Here the market creation will be more from product development.

Moderator The next question is from the line of Ravi Nanda, Individual Investor.

Ravi Nanda Sir MB16 and MB07 there will be same customer base which MB03 have?

Arvind Singhania No, separate set of customers. MB03 is carpet, MB07 is going for carpet also, MB16 is textile application.

Ravi Nanda Sir, MB16 or MB07 commercial sales has started so what is the feedback of customers?

Arvind Singhania It is very good, the customer feedback is very good.

Ravi Nanda Sir what will be the incremental sales for the year?

Arvind Singhania Sale will be good this year.

Moderator The next question is from the line of Saket Kapoor from Kapoor & Company.

Saket Kapoor Sir, firstly on this carpet part of the story, we have also seen that one of the textile player Welspun has also setup this flooring part of story, does the chemicals which the one you have mentioned right now MB03, are for the same purpose and will be utilized by the same client, is there any synergy with the same, Welspun is coming up with a huge CAPEX on the carpet flooring segment?

Arvind Singhania I am aware of that but I am not sure whether they are going in for nylon 6 carpets or polyester carpets, because MB03 goes largely for nylon 6 only.

Saket Kapoor Who are the end clients, the carpets who goes to the end user who are the branded big players in this segment?

Arvind Singhania I cannot name customers, we are under confidentiality but the world's largest players are our customers in the carpet business.

Saket Kapoor Sir, in this plastic division part, the type of turnaround which we have seen over just a quarter, I missed the reason what has attributed to it and what likely are the reasons for the continuity also Sir on a top line of Rs.78 crore, we made PBT of Rs.21.83 crore, so if you could elaborate?

Arvind Singhania These are exceptional numbers, I do not expect them to remain permanently, they may remain for a time and then they will settle down again.

Saket Kapoor But what was the reason Sir, what was the reason for contribution?

Arvind Singhania Supply chain disruption.

Saket Kapoor Sir, going forward we are also putting up capacity in this segment also, I missed your comment on the same?

Arvind Singhania Yes, we are putting up a capacity and because right now we are sold out and we will need more capacity because there is demand growth, demand is growing in this segment also by 8%-9% and we hope to increase our sales by about 12% to 15% per annum.

Saket Kapoor What raw material goes into this segment, Sir?

Arvind Singhania Nylon 66, PBT, ABS, Polypropylene, a host of raw materials are used.

Saket Kapoor This will be in the western part of the country where you are relocating it, that is what the capacity utilization goes?

Arvind Singhania In Gujarat.

Moderator Thank you. Ladies and Gentlemen, that was the last question for today. I would now like to hand the conference back to the Management for closing comments.

Arvind Singhania Ladies and Gentlemen, thank you for attending the Earnings Call for our company and we look forward to seeing you again after the next quarter. Thank you very much.