



Ester Industries Limited
Q4 FY22 Earnings Conference Call
May 23, 2022

Moderator: Ladies and gentlemen, good day and welcome to Q4 FY'22 Earnings Conference Call of Ester Industries Limited. 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 Q4 and FY'22 analyst and investor Conference Call. We have with us today, Mr. Arvind Singhanian, the Chairman and Mr. Pradeep Kumar Rustagi, Executive Director - Corporate Affairs. We will begin this call with opening remarks from the management, following which we will have the floor open for interactive Q and A session. Before we begin, I would like to point out that some statements made in today's discussions may be forward looking in nature and a note that this effect has been shared with you in the invite earlier. We trust you've had a chance to go through the presentation and the documents on financial performance. I would now like to hand over to Mr. Singhanian to make his opening remarks, over to you, Arvind.

Arvind Singhanian: Thank you. Thanks Gavin and thank you everyone for joining us today. I have alongside with me, Mr. Pradeep Rustagi, executive director - corporate affairs. I will begin the call with brief overview of all our businesses post which Pradeep will walk you through our financial performance for the quarter and the year. FY'22 has been a good year for us, a year, which also marks a new beginning for us. I say good bearing in mind the challenging macro environment, particularly in the second half. All our businesses performed well, delivering good top line growth and profitability. I also say new beginning because as most of you must be aware we recently announced the sale of our engineering plastic business to Radici Plastics India Private Limited. Post the transaction Ester Industries becomes more focused and committed towards scaling up its core business of films and specialty polymers. I will talk a bit more about the transaction later but suffice to say that the new focus entity is now even more dedicated toward creating value and growth for our shareholders.

Starting with the headline numbers, we are pleased with our performance for the quarter wherein we delivered strong top line growth of 30% over the previous year, the growth was well spread with all our businesses, verticals performing well. I'm also happy to report that we had been able to improve our operational profitability in absolute terms amidst rising raw material environment. PAT for the quarter was lower largely due to higher interest and



tax outgo. Moving on to individual businesses, starting with specialty polymers, FY'22 has been a stellar year for the business with revenues and profitability, both registering healthy growth, demand momentum for our marquee product as well as a newly introduced one remain strong. We have seen volume growth of 94% for MB-03 over last year, innovative PBT as well has picked up pace on expected lines following a benign Q3 with volume growth of 14% over FY'24. Both these products continue to see good traction and we are confident of sustaining the momentum in the coming years as well. EBITDA margins during the quarter under review in absolute terms is better than the previous quarter, but lower in percentage terms due to larger denominator effect. Specialty polymer as I had indicated in the past is largely IP protected, which in turn ensures that the business generate and can sustain higher margins. Basis progress during last years, we expect substantially higher sales of MB 03 as well as innovative PBT during FY 23 and onwards. Some of our recently introduced products as well are shaping up well and have the potential to do well in years to come. We expect that existing products coupled with new products would help us sustaining the momentum going forward.

Moving onto the film business we have seen yet another solid performance for the year. Overall volume for the year stood at 58,151 metric tons against 56,336 metric tons delivered during FY'21. Realizations for the quarter were relatively better on sequential basis although the same was largely owing to higher raw prices, which was passed through ensuring margin maintenance in absolute terms. In the near to short term, we expect pricing to be volatile, given new capacities likely to hit the market, which may result in margin compression in the near term despite volumes demanding elevated. On long term basis though, we expect the demand supply to remain favorable. The other positive part of our Q4 performance was the improved margins despite lower volumes. We delivered 300 data basis point margin expansion during the quarter on a sequential basis, which was largely owing to better product mix. Reiterating, one of our objectives toward film business was to increase the share of value added products. As of Q4 FY'22 value added product constituted 23% of the overall mix. Our aim, as we have stated earlier, has been to increase the share of high margin product to 30% of the overall product mix and we are well on track towards attaining that. A quick word on our new plan before I move on to engineering plastic business. Our 48,000 ton per annum plant at Telangana is progressing as per schedule and we expect commencement of commercial production by October 2022.

Moving on to our engineering plastics business, as mentioned at the beginning of the call, we have entered into business transfer agreement with Radici Plastics India Private Limited to sell our engineering plastics business in an all-cash clump sale transaction amounting to Rs. 289 crore. The transaction is aligned with our strategy of focusing resources and commitment in segments where we have core competency, and we believe we have an opportunity to create value for our shareholders. The proceeds from the transaction will not only help us further strengthen our balance sheet, but also provide the requisite growth capital for scaling our film and specialty polymer business. Furthermore, the transaction with the global major in the engineering plastic space is also a reflection of our capability in building a business and creating value for stakeholders. As part of the transaction, some of our talented human resources are now with Radici Plastics India Private Limited. We expect closing by July-August 2022. As mentioned earlier, our efforts will now be directed towards building innovative and pathbreaking products in specialty polymer business besides improving



product mix and film business by increasing the share of value-added products. As far as Q4 performance is concerned, engineering plastics delivered a revenue growth of 9% on a year on year basis. The growth was largely driven by higher sales realization though volume of sales was lower. EBIT margins for the business declined on a year on year basis, largely on expected lines given that Q4 FY'21 was an exceptional quarter for the business with unprecedented margins. Since Q4 FY21, we are witnessing a gradual rationalization of margins, so margins are still at very good levels.

To conclude I would just like to state that we believe that we are well placed to create value for our shareholders. Post the engineering plastic transaction, we will channelize all our energies towards growing the core film and specialty polymer business. Specialty polymer given its innate strength should grow at a good pace over the coming years. Furthermore, as mentioned above earlier, given the IP protection the business enjoys, the margins and profitability are not a concern at all. Our attempts are directed towards enhancing the sales velocity and building new innovative offerings to maintain a healthy product lifeline for the business. As far as film business is concerned, the core underlying demand across domestic and international markets remain strong. Realizations as mentioned earlier, may see some volatility in the short term owing to commissioning of new capacities, but we expect the demand supply dynamics to improve over medium to long term.

We are also working towards further improving the product mix that will help us in sustaining the margins. Lastly, the commissioning of the new plant will help us further scale the business and contribute towards starting a new path for the business. That concludes my opening remarks. I now hand over the floor to Pradeep to walk you through our financial power, thank you.

Pradeep Kumar Rustagi: Good afternoon, everyone. Thank you for joining us today. I will quickly walk you through our financial performance for the quarter and year ended March 31, 2022, post which we can begin the Q and A session.

Starting with the top line, revenues from operations stood at Rs. 388 crore as against Rs. 297 crore reported during Q4 FY'24, that is higher by 31% while on a yearly basis revenue stood at Rs.1,406 crore as against Rs. 992 crore higher by 42%, the growth was well spread out with all businesses witnessing good traction in their revenues. EBITDA for the quarter stood at Rs. 65 crore as against Rs. 60 crore generated during Q4 FY'24 higher by 8% while on the yearly basis the same stood at Rs. 252 crore as against Rs. 244 crore generated during FY'21, higher by 3%, margin in percentage terms though compressed during the period under review mainly due to larger denominator in terms of higher sales value. Finance cost for the quarter stood at Rs. 8.6 crore as against Rs. 5.7 crore out go reported during Q4 FY'24. While on yearly basis the same stood at Rs. 24.9 crore as against Rs. 18.6 crore outgo reported during FY'21. As of March 22 our outstanding interest-bearing term debt, net of free cash stood at Rs. 267 crore while interest bearing working capital liabilities stood at Rs. 88 crore. Interest bearing debt net of free cash is a multiple of EBITDA remained at a comfortable level of 1.06x as of 31st March 2022. The proceeds from the engineering plastic transaction will further strengthen our balance sheet and significantly improve the already healthy level of getting. We will continue to pursue the policy of maintaining debt better than prudent levels. Depreciation for the quarter stood relatively stable at Rs. 9.9 crore while for the year the same stood at Rs. 38.6 crore as against Rs. 35 crore during FY'21. Profit for the quarter stood at Rs. 33 crore as against Rs. 34 crore generated during Q4

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FY'21, while for the year the same stood at Rs. 139 crore as against Rs. 142 crore generated during FY'21. To conclude, I would just like to reiterate what Arvind ji has said earlier, we are well positioned to deliver consistent growth and drive the next phase of growth for the company. Thank you.

Moderator: Thank you. The first question is from the line of Ayush Agarwal from Mittal Analytics.

Ayush Agarwal: Firstly, I'd like to understand our specialty polymer business a bit, given that, you know, we have scaled up massively here in the last couple of years. So if you can explain the journey of how did we envisage this new division, what kind of capabilities did we have and how did this entire thing come about? What was the customer acquisition cycle like? And you know, other things. So, because in the new business, we have done Rs. 180 - 170 crore so this is very margin. So a journey in a little detail would really help me.

Arvind Singhania: Okay. As you can see, there has been a substantial growth in sales turnover in FY'22, compared to FY'21. I think in FY'21, we had a sales of about Rs. 59 crore and now we have touched Rs. 170 in FY so it is a substantial jump. Some of our marquee products have improved volume substantially, for example, MB-03 doubled, IQPBT went up substantially. There are various other new products in the pipeline as well and we expect a substantial increase in turnover in the coming year as well.

Ayush Agarwal: So, sir, I really wanted to understand was the journey of our specialty polymer business, how did we envisage this division, how did the business come about? How did we think about it and you know, what kind of capabilities, how did we build them? Because this is a very high growing high margin business, so, you know, some insights on them would be really helpful because it's a completely new division for us.

Arvind Singhania: Mr. Agarwal, I would be very happy, it is a long answer, it is not a short answer and I would be happy to take this offline with you if you don't mind.

Ayush Agarwal: **Sure, absolutely**

Moderator: The next question is from the line of Sachin Kasera from Svan Investments.

Sachin Kasera: Yes, good afternoon, sir. First thing is regarding sale of this engineering plastic business.

Sachin Kasera: I am saying the consideration that we see have exceeded roughly around 4 times the EBITDA that we reported for the current financial year, so that seems quite low. So is it that you think the current numbers are not sustainable, hence we got a lower evaluation? If you could give some sense, what was the mathematics that went behind the valuation for the transaction.

Arvind Singhania: Yes, so FY'22 was an exceptional year and I can just share with you some numbers about the EBITDA margins over the last 8 years starting from FY 14, in FY 14, our EBITDA was Rs. 4.42 crore at 3.05%, FY'15 was Rs. 8.79 crore at 5.08%, FY 16 was 7.8%, FY'17 was Rs. 10 crore at 7.3%, FY'18 was Rs.8.3 crore at 4.88%, FY'19 was Rs. 2.76 crore at 1.4%, FY'20 was Rs.



6.13 crore at 3.81%, FY'21 was the first year where we had a major jump at Rs. 37 crore at about 18% and in FY'22 it was Rs. 60 crore at 20.42%. So these two years have been exceptional years and you can never expect to get 10 times or 11 times EBITDA multiple only based on exceptional year, any buyer will also see what is the past history and what is it going to be going forward. So I think if you take we have got the average of FY'20 and '21, and I think it's a very reasonable and a good EBITDA multiple that we have got and from a buyer's perspective and the seller's perspective from both perspectives, I think it's a win-win situation for everybody.

Sachin Kasera: Sure and what will be the net profit post the transaction fees and the taxes that will come into the company.

Arvind Singhania: The net proceeds after expenses and tax etc. should be in the region of about Rs. 225 crore, after paying the tax and the expenses related to this transaction. Rs. 225 crore.

Sachin Kasera: And sir, what is the intent? How do we plan to utilize this money that we got from here?

Arvind Singhania: For the timing we are going to immediately pare the debt, and over a period of time, we'll see what opportunities come in front of us, would be some inorganic growth in terms of acquisition of some small businesses or could be towards the expansion as the case may be, but for immediate, we are able to pare down the debt, reduce interest cost. As it is our total debt right now is only about Rs. 267 crore, total interest bearing liabilities of the company as on date is Rs. 267 crore, so with the reduction of Rs. 225 crore, we'll have a debt in Ester of only about Rs. 30-35 crore left or Rs. 40 crore.

Sachin Kasera: But are you talking about standalone numbers or are you talking about consolidated numbers?

Pradeep Kumar Rustagi: No, this is only standalone because the Telangana operations have not yet started, so we are not counting debt of that business.

Sachin Kasera: Sure.

Arvind Singhania: Even if you take on a consolidated basis, the multiple that we have is going to be extremely prudent as a multiple of EBITDA.

Sachin Kasera: Sure. Secondly, you mentioned that you could look at some acquisition opportunities, if you could give us some sense which areas are we looking at? What type of acquisition offers we are looking, what are the type of ticket size we would be comfortable in? What are the key parameters that you would look at in terms of the return ratios of the metrics before you go into an acquisition?

Arvind Singhania: I'm afraid I can't share any particular details because we don't have anything as yet, but most likely it's all going to be towards technology products.

Sachin Kasera: No, but will it be in the same field that we continue to operate or we could look at some other field?

Arvind Singhania: No, not engineering plastics for sure. We got divesting of it, so we are not going to go down acquiring anything to do with engineering plastics. Anything that we do will be towards films and specialty polymer.

Sachin Kasera: Okay, secondly, sir, if you could tell us a little bit about what is your sense of the coming year in terms of the specialty polymer outlook, volume spark, if that would be.

Arvind Singhania: Yes, so, as you know, we did about Rs. 170 crore turnover in FY'22, which is in line with the guidance and even in fact, it is a little bit more than the guidance I'd given earlier over a turnover of Rs. 59 crore in the previous year, we are looking at turnover in FY'23 of about Rs 250 crore.

Sachin Kasera: And any sense on margin, so this year with a strong margin of 32%.

Arvind Singhania: It will be in the same ballpark figure.

Sachin Kasera: And normally we have seen you validated the fact that, you know, in field business, you're expecting some volatility because of capacity coming in. Can you give us some more details? What is the overall demand supply? Normally, what we have seen is that every time we see good eight, nine quarters of performance by the industry, they are again followed by, you know, some bit of pain that the industry has to go through because everybody has capacity. So if you could give us some sense on how is the demand supply variable looking to you for the next 2 to 3 years for the industry?

Arvind Singhania: Well, like I said, in the short term, because of startup of new capacities, there may be some volatility in margins, but overall in the medium to long term, we expect this new capacity to get consumed between domestic market and export.

Sachin Kasera: Okay, what type of margin pressure do you think sir on a per kg basis we could see in the next 1 to 2 years?

Arvind Singhania: In the next 1 to 2 years?

Sachin Kasera: Yes, or let us say for FY'23 because of these new capacities that are coming in currently what type of margin you could see on a per kg basis on the margin front?

Arvind Singhania: There will be some rationalization in margins in FY'23 over '22. I think we can certainly expect that.

Moderator: The next question is from the line of Rohan Gupta from Edelweiss Securities..

Rohan Gupta: Sir, a couple of questions from my side. One is on this PBT that's in specialty chemical segment, if you can share some more detail, some detailed outlook that how this business is going to grow in future and what kind of more customer profile we can expect and how the margin difference is there in this segment.

Arvind Singhania: Okay, so as the specialty PBT is concerned, we did about almost 1200 tons in FY'22 compared to about 1100 tons in FY'20.

And before that 465.

And before that it was 465 tons, in the current year, we are hopeful as per the forecast given by the customers, we can touch 2,000 tons this year. So maybe almost not double, but increase of about 80-90%, margins will remain intact.

Rohan Gupta: Okay. Is it only one customer we are catering to or we are expecting a more number of customers in this segment or it's only that from customer restriction is there in terms of sharing the technology with any other customer?

Arvind Singhania: Yes, so this product is sold only to one customer as per the contract with them. We are not permitted to sell this product to any other customer. It's a contract manufacturing that we do for them.

Rohan Gupta: And the technology part you have developed or it is shared by the customer?

Pradeep Kumar Rustagi: Well, the patent belongs to the customer, but the operational know how belongs to us.

Rohan Gupta: So you are more like a CRAMS player there, right?

Arvind Singhania: Yes, you can say contract manufacturer. They are the only company in the world that supplies this material to our customer.

Rohan Gupta: Okay, just want to know that in terms of our packaging film that we are providing specialty packaging, what kind of our entire product basket you are catering to this specialty packaging which is not catered by more than two or three players globally and where we can have a complete pass on of the raw material with the protection on the margin?

Arvind Singhania: I will come to that, but before I go to that question I just want to complete on the specialty PBT, we can expect very good volume growth going ahead. So if you're talking about doing about almost 2,000 tons in FY'23, I think we can look at doubling this capacity or doubling this volume over the next 2 to 3 years.

Rohan Gupta: Okay, doubling the volume from the current year which you mentioned that anyhow will be 2,000 tons.

Arvind Singhania: Correct.

Rohan Gupta: So we can go to 4,000 tons over next 2 to 3 years in that.

Arvind Singhania: Absolutely correct and now on the specialty films, which you say are not being done by more than two to three players, I'll pass the mike over to my colleague, Mr. Girish Behal, who's the business head of polyester films.

Girish Behal: Talking about, there are a variety of products which are made by different numbers of players in the world and each and every application is all about and unique in all respects, so all the players who is present in these products do not have the same portfolio of the products.



Rohan Gupta: So, in terms of our entire revenues coming from the specialty packaging, right, if you can just share the number, like no, in terms of revenue mix, what product basket will be specialty in terms of completely customized with the customer requirement and what is the commodity part in the revenues?

Girish Behal: See, our total share of our special films is about 30%. The volume is 22%. The value is 30% in the financial year, 21-22, so that shows that it is sold at a premium to the normal bill.

Rohan Gupta: Okay. So, so roughly 70% of the revenues come from the commoditized part of the business.

Girish Behal: Absolutely, yes.

Rohan Gupta: Can you share some more on this, that how this ratio has changed in last 3 years and where you expect it is going forward over next 3 years?

Pradeep Kumar Rustagi: So, so I'll give you the numbers, FY'20, this value was only 20%, that had increased to 25% and in the financial year '21-22, it is at 30%.

Rohan Gupta: Okay, where you see that over the next 3 years, some guidance?

Arvind Singhania: In terms of volume, we want to reach 30%, but up to now, we've been talking of 30% of our existing capacity only. Once the Telangana plants starts commissioning this percentage will once again drop because when you add a new denominator, this percentage will drop, but over a period of time, we including our new capacity want to take it up to 30%.

Pradeep Kumar Rustagi: So in tonnage it'll be increased year after year.

Rohan Gupta : Correct got it, so in tonnage, in terms of volume, which is right now 22%, you expect it to go to roughly?

Arvind Singhania: 23%.

Pradeep Kumar Rustagi: At 12,500 tons, it will increase year by year, 12,500 will be increasing.

Rohan Gupta: Got it, sir, sir, here, once again, if you can share more about your customer profile. So on, this specialty, what kind of profile we have from the customer, how much coming from the FMCG and pharma players?

Arvind Singhania: It's very difficult for us to answer that question right now, in any case, some information is also very confidential on this because we don't want to.

Rohan Gupta: I understand, sir, but it'll be fair to assume that because generally FMCG, pharma, these are the end user industries which are categorized as a specialty products because rest of the end user industry more or less will be commoditized. So would it be fair to assume that the entire 30% of the revenues coming from specialty will be primarily coming from these two segments?

Arvind Singhania: Well, you can say up to that portion, yes.

- Rohan Gupta:** Okay, on this packaging film, we have seen that, you know, in BOPET there is a kind of capacities increase has happened in the global market and the prices are under pressure. I understand that you are not directly catering to BOPET, but still our packaging film business derived our margin.
- Arvind Singhania:** We are a BOPET company, we make BOPET films.
- Rohan Gupta:** No, no, sir, I was coming from the specialty product basket, which is 30% of the revenues where you may not be directly linked with the BOPET volatility. Just wanted to understand with this rising BOPET capacity globally, do you see that your margins and sales mix can change significantly? How this increasing capacity of BOPET globally will affect your margins and revenues and utilization?
- Arvind Singhania:** So, the whole idea of getting into specialty films, value added products in film business is to mitigate the commodity technicality in BOPET films, so we don't expect a major effect of price volatility on commodity pricing to have effect on margins of specialty films.
- Rohan Gupta:** And in terms of our 70% revenues, they still come from commoditized product, will that be under significant pressure over near term because of the capacities commissioning in BOPET?
- Arvind Singhania:** There will be some rationalization in margins because of the new capacities coming in on the commodity portfolio.
- Rohan Gupta:** And sir just last, what kind of the margin difference will be there in your specialty versus commoditized business in terms of basis point?
- Pradeep Kumar Rustagi:** So our average realization, let's say for March quarter was about Rs. 143 and if you look at the average rate for the specialty film, it was close to Rs. 230. So we were getting Rs 70 to Rs. 80 over and above the normal films.
- Moderator:** Thank you. The next question is from the line of Saket Kapoor from Kapoor and Company.
- Saket Kapoor:** Sir, firstly thanks for the detailed investor presentation and your opening remarks mentioned here that covers a lot of discussion happening here. firstly, if you could give some color on the utilization levels also for this quarter as was mentioned that the margins were lower. So, the utilization levels, especially for the film segment, what were for this quarter and for the year as a whole?
- Pradeep Kumar Rustagi:** So, we have sold about 58, so we were more than 100% during the year and for the quarter, we were about 95% .
- Saket Kapoor:** And sir then coming to this Greenfield project part also, in the capital work in progress, we find around Rs. 447 crore I think being there at CWIP, so that is Rs. 435 crore to be precise, so what portion is towards the new Greenfield project out of this Rs. 435 crore?
- Arvind Singhania:** Entirely, because the Telangana project is coming up in 100% subsidiary and there is nothing else being implemented there. This entire CWIP that you're seeing is towards the project only.

Saket Kapoor: Okay, sir, because when we look at the standalone number, it is Rs. 19 crore.

Arvind Singhania: Yes, that is standalone Ester right?

Saket Kapoor: Yes, so I was just looking at the difference, the entire Rs. 435 crore is towards the Telangana plant only or something towards the trim segment also that any debottlenecking exercise we are doing there?

Pradeep Kumar Rustagi: Saket, Telangana project is under Ester Filmtech, which is a separate company. Accounting is done separately and therefore Rs. 400 crore odd is entirely the amount spent on the Telangana project. The CAPEX done in Ester Industries are reflected in the balance sheet of Ester Industries, not in Ester Filmtech.

Saket Kapoor: Correct, sir, that was my question only. Rs. 19 crore has been shown under capital work in progress for stand alone.

Pradeep Kumar Rustagi: Yes. Capacity utilization for polyester film during march quarter was 95%.

Saket Kapoor: Okay, right sir. Sir, for this engineering plastic part, well, the net cash accrual was the Rs. 225 crore you mentioned post the tax?

Arvind Singhania: Correct.

Saket Kapoor: And sir for when this capacity will come into stream post October onward, what would be the likely mix between the films and the specialty polymer segment say about for H2 and also for the next year as a whole, would they improve volumes in this facility, polymer segment, and then they increased film segment? I think so it'll happen in a phased manner. So what would be the likely mix in terms of the revenue sir?

Arvind Singhania: You see this year post the closing of the engineering plastic business, we will lose the revenue from the EP business. We will be adding about 6 months of production coming out of the Telangana on a consolidated basis and plus an increase in the turnover of the specialty polymer business. I think overall you can expect to see little higher number in terms of overall turnover for the company in this current year and next year should be substantially higher because we will have full operations of Telangana, full operations of film in Ester and a further increase in turnover of the specialty polymer.

Pradeep Kumar Rustagi: So we, in the current financial year 22-23, we will lose close to Rs. 200 crore on account of engineering plastics because we would lose about 8 months of production and sales, but we would add Telegana and increase in this specialty polymer.

Saket Kapoor: Okay, but you are expecting that we did a topline for Q4FY22 at Rs. 1,406 crore precisely for the company and this is where we will stand post this commercialization of the film line and also the increased volume of specialty polymer?

Pradeep Kumar Rustagi: Yes, subject to the raw material prices being what they are today. If there is any volatility in the prices it will get rejected indeed.

Arvind Singhania: The raw material prices have doubled over the last one year almost.

Saket Kapoor: Correct.

Saket Kapoor: Sir, for the next H2, how will the ramp up happen in the film business? We'll be reaching 100% in H2 itself or will it happen in a phased manner because it is a substantial capacity?

Arvind Singhania: No, we will start production in October and it will take up a few months to reach 100% level, no line can start at 100% on day 1.

Saket Kapoor: Right sir, so that was my understanding. What would be the average utilization levels you're expecting depending upon your customer base, also where you would be catering to?

Arvind Singhania: I think if you take for 6 months, I'm not taking on an annualized basis, but only for if I take 6 month period, it should be in the region of about 60%, 70%.

Saket Kapoor: Correct, sir.

Pradeep Kumar Rustagi: So extra production in percentage of available capacity.

Saket Kapoor: Correct, and sir if you could give us the mix for this raw material consumed, how have the raw material practice for this MEG and the PTA behaved for this quarter?

Pradeep Kumar Rustagi: So March 2022, the PTA was at Rs 73 and MEG was Rs 57 as compared to Rs 68 in December for PTA and Rs 60 for MEG. So the per kg cost it increased to Rs 82.5 from Rs 78.5 and currently we are at about Rs 95 per kg of film, so Rs 89 is the raw material for PTA and 54 is the MEG rate.

Saket Kapoor: Okay. So there's slight decline in the MEG prices and an upward pick in PTA.

Arvind Singhania: The MEG consumption is less, it is only 0.34, PTA is 0.86.

Saket Kapoor: I didn't get it sir, come again.

Arvind Singhania: With MEG you only use 0.33 per kg of MEG per kg of product.

Saket Kapoor: Okay.

Arvind Singhania: And the effect of the lower price is very little because the consumption itself is very small.

Saket Kapoor: Yes, sir last point is on the employee benefit expenses, on a year on year basis it is down from Rs 24 crore to Rs. 19 crore, sir, please explain the reason for the same and for this year, what has been the contribution to the KMPs in terms of the percentage of a net profit being shared?

Pradeep Kumar Rustagi: So, what had happened in Q4 FY21 was that there was a provision effect of extra increments and PLI for FY20 that was distributed in the March 21 quarter, so this year that effect is not there and we are at the normal level of about Rs. 19 crore. As far as commission on profit is concerned, that's capped at Rs. 12 crore in the current year FY22, the provision is amounting to Rs. 12 crore only.

Saket Kapoor: So out of the employee cost of on an annualized basis of Rs 67.41 crore, Rs. 12 crore is towards the contribution to the promoters.

Pradeep Kumar Rustagi: Yes.

Saket Kapoor: Okay sir, we find that the team including you, Mr. Singhania and Rustagi ji has really turned things around over a period of time, but the confidence among the investor community has still not been there. What could be the major reason that still in your shareholder base we do not find people who are convinced in the long term story, although you have been guiding, and also you are walking the talk over the last 2 years, and that is very well reflected in the dividend payouts, the increase in market capitalization, the profitability, but, the traction is not gaining neither in the mutual fund community nor in the foreign institution, so where is the disconnect that is still prevailing, sir and what steps are you taking to build that confidence over a period of time? Or is it the secrecy of the business that is keeping the long term investors at bay from investing in your business, sir?

Arvind Singhania: Saket, it is very difficult for me to answer on the investors' behalf. We are the promoters, management of the company. How the investors react is something that would be very difficult for me to answer that question, but we are going to make a lot of effort to bring more, you know, noticeability about our company and what we are doing and how our specialty polymers is going to move ahead in the future. I think slowly, we are very confident that we'll be able to convince the investor community that this company means what it says, we have proven it over the last 2 or 3 years, despite COVID, despite all the adversities that the world has faced, we have proven our competence, our capability to perform and specialty polymer you can see how it has jumped substantially. We are very confident of the specialty polymer business going ahead and becoming a substantial business over the next three to four years and this is a message that I would like to take to the investors again and again, and we will draw out the plan to do that and we are objectively also to do all this while keeping the balance sheet at a healthy level.

Moderator: Thank you. The next question is from the line of Miraj Shah from Dalal and Broacha.

Miraj Shah: Sir, I wanted to know that in the films business, do we have anything apart from BOPET, I think one line BOPET is coming, but from our current capacity, do we have anything apart from BOPET?

Arvind Singhania: Right now in the film business that we only have BOPET in our portfolio, but going ahead, we have full intention of getting into other substrates like polypropylene.

Miraj Shah: Okay, understood, and within BOPET can you tell me what are the realizations currently for commodity films and specialty films?

Pradeep Kumar Rustagi: So the commodity films, I'm talking about 12 micron corona the current rate is about Rs. 153-154 and during the March quarter, it was Rs. 143.



Arvind Singhania: Specialty you can do about Rs. 60 to Rs. 70 extra on an average, but in specialty.

Miraj Shah: Okay and for the entire quarter it was Rs. 150-154.

Arvind Singhania: Rs. 153 – Rs.154 for commodity, yes.

Miraj Shah: Okay, thank you so much.

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

Pratap: Good afternoon, sir, My first question is on the plastic business sale revenue will be realized by which month so that we can have a clear idea that that plastic business revenue, once realized in book, Now it'll not be part of the book, but it will be managed or compensated by other business.

Arvind Singhania: We intend closing of the engineering plastics business by July-August.

Pratap: Correct, sir. So on continuation with this question, what is your plan to invest this case into the core segment or subsidiary segment?

Arvind Singhania: Right now, as I mentioned earlier, we will use this money to pare out our existing net debt.

Moderator: Thank you, the next question, which is from the line of B. Surendra, an individual investor, please go ahead.

B. Surendra: Sir, congratulations for good results. I wanted to know when would the Telangana plant be commissioned?

Arvind Singhania: The erection is almost complete. The commissioning activities will start by end of next month.

B. Surendra: Secondly, if we are doing away with engineering plastic, then how can we make out that gap in FY'23, '24?

Arvind Singhania: If you are talking in terms of the revenue loss certainly it would be made up by the Telangana plant and in part by specialty polymer business.

B. Surendra: Is the dividend policy the same?

Arvind Singhania: Yes, it doesn't change every day.

B. Surendra: No, but what I mean to say that there is a substantial profit in the next year, services, will it maintain at that level, at 20%?

Arvind Singhania: Our policy states that we will distribute up to 20% of net profit as dividend so that policy remains and will remain.

Moderator: Thank you. The next question is from the line of Tushar Talwa from Regulation30.

Tushar Talwar: Sir, I just wanted to ask that, you know, in terms of that we are aiming to have 30% specialty volumes and around 70% commodity, I just wanted to know, what prevents us from being, you know, more aggressive in this space and, you know, targeting a higher specialty terms, that's my only question.

Arvind Singhania: Well, we are growing as we can realize the opportunity. I think we could grow from instead of up to 30%, we would take it to 60% overnight, but that is impossible. It doesn't happen like that. It takes time to build a specialty product volume. It involves product development. It involves product qualification, customer qualification. There are a lot of steps to go through in increasing volume of specialty, it is not like commodity, commodity you can go to the market and the price it sells, but in specialty you have to go through a process. That process is quite long and tedious at times.

Tushar Talwar: Understood. That's all my side.

Moderator: The next question is from the line of Yogansh Jeswani from Mittal Analytics.

Yogansh Jeswani: Hi, thanks for the opportunity, sir, a couple of questions on your specialty business. So, what is the total PBT capacity that we have?

Arvind Singhania: Our plant is fungible between different products, so it's not specifically meant for one product. Our plant is flexible enough for products that we sell out of specialty polymer business.

Yogansh Jeswani: Okay, so this entire 30,000 ton specialty polymer capacity is fungible between PBT and MB-03 and MB-07?

Arvind Singhania: Yes, and the product is also our nameplate capacity because capacity also depends on each product. Each product doesn't have the same cycle type, so this is just the indicative number, don't take it as a gospel truth, this is indicative capacity number.

Yogansh Jeswani: Fair enough, sir. That's helpful. So secondly, follow up on your Innovative PBT. So earlier we had announced that this was a long term contract been for us for 2 years with, I think 400 tons of committed order, which we had easily, you know, surpassed every single year, this year I noticed in your presentation that there is no minimum order commitment that has been mentioned for FY'22 or for FY'23, so going forward, is it fair to assume that this is no more a long term contract with volume commitment, but just, you know, something which depends on client and demand and we will supply accordingly?

Arvind Singhania: Yes. So there is no formality in terms of a written agreement, but the volumes are growing, as you can see and will continue to grow.

Yogansh Jeswani: Is there is also a possibility of our end customer also developing another vendor or source for the same product, just to, you know, because maybe they were also texting this product and now that they're seeing volumes, even they would like to have two sources minimum. So are we seeing anything of that sort in this or do we think we will be the source suppliers?

Arvind Singhania: We don't expect that to happen, anything can happen for that matter, but highly unlikely that another source will come up. It's a very complicated subject, it's not easy to operate.

Yogansh Jeswani: And sir, also I think this is a fairly new segment for us and from the look of it, the kind of margins that we are making in this product is very, very high. So it has to do something with the capability. So if you could talk more about why this end customer chose us as their vendor to develop this product, what kind of inherent capabilities or, you know, talent we had and given the pipeline that we have, what is the kind of talent and position that we have, if you could just touch upon few of those softer points, that would be really helpful in, you know, understanding how we have grown this business.

Arvind Singhania: You answered the question yourself my friend, we have the capability and capability is not only restricted to one part in terms of equipment, it is processed, how it is infrastructure, it is equipment, it is a team of people, you know, the talent and plus processing parameter. It's a multitude of factors, it's not one factor and we happen to possess it all for this product and for many other products, that's why this company has chosen us.

Yogansh Jeswani: Alright, sir, and sir lastly, in terms of the other product, if you could share, say for example, the MB-03 and LMC and all those, what is the kind of traction we are seeing in those, like PBT you mentioned, we have a very strong traction, almost 90% kind of volume growth expected. So what is the kind of volume growth expected in these products?

Arvind Singhania: See, MB-03, I think, will grow by at least 30-40% over FY'22 and FY'23, the specialty PBT I've already given the numbers that we expect to touch 2,000 tons against 1,100 tons this year or 1,200 tons this year. So there is a good traction, apart from this our other products are also gaining traction, one product has taken a bit of a slowdown, MB-16, because of the Chinese lockdown. China has been under lockdown for the past 2 or 3 months, so there is absolutely no movement and until that opens up it is very difficult to say how that will proceed, but the product stands qualified, we are expecting to start seeing volumes once China opens up. Apart from this, we have three or four other very interesting products which have slowly started moving, which I can't talk about right now, but all these are expected to attain very good volumes and extremely good margins in the coming year.

Yogansh Jeswani: Got it, sir, last question from my end, again also on your speciality chemical side. So like PBT, MB-16 and MB-07, MB-03, so are most of these products to one or two clients only or, you know, the one client that we are supplying to PBT or we have different set of clients for all of these products and if you could, you know, just share the quantitative number, how many clients we have, if that is not part of some confidentiality clause or something, if you could share that number.

Arvind Singhania: Yes, so we really can't talk about the number of clients we have for each product, because it's a very big thing, but I can suffice to say that specialty polymers does not have a huge client list like a commodity product. If the number of customers is like commodity, then this won't be specialty anymore.

Yogansh Jeswani: No. What I meant to ask for say is, you know, the client that you have for PBT, is that the client for MB-16, MB-07, that's what I'm saying.



Arvind Singhania: No.

Yogansh Jeswani: You have at least different client for these products or?

Arvind Singhania: Separate clients.

Moderator: Thank you. The next question is from the line of Himesh Shah, an individual investor, please go ahead.

Himesh Shah: Sir, I wanted to know that, you know, since we are not very highly leveraged, why are we not using the money to pay back the investors as a special dividend?

Arvind Singhania: We considering to take it to the board. I can't give an answer right now, but let the deal consummate and we'll take it to the board. It's the board's decision at the end of the day.

Himesh Shah: Okay, and one more question, since we are so optimistic about the specialty polymer business, I wanted to know, you know, what is the CapEx that we would require to, you know, to continuously, you know, as we are saying, you know, we might be able to increase the turnover by 30-40% even this year over last year, then is there any significant CapEx for this division?

Arvind Singhania: There is a CapEx under way right now, which is about Rs. 60 to Rs. 70 crore which will finish by FY'23 or early start FY'24, which will cater for our requirements for the next 3 to 4 years, at least.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I now hand the conference over to the management for closing comments.

Arvind Singhania: Thank you very much for joining us for the FY'22 Earnings Call. I look forward to seeing all of you again for the Q1 FY'23 Earnings Call later this year. Thank you.