



Ester Industries Limited

Q2-FY20 Earnings Conference Call Transcript

November 15, 2019

Moderator: Ladies and Gentlemen, good day and welcome to Ester Industries Limited Q2 and H1 FY20 Earnings Conference Call. Please note that this conference is being recorded. I now hand the conference over to Mr. Gavin Desa from CDR India. Thank you and over to you, sir.

Gavin Desa: Thank you. Good day everyone and warm welcome to Ester Industries Q2 & H1 FY20 Analyst Investor Call. We have with us today Mr. Arvind Singhanian –Chairman and Mr. Pradeep Kumar Rustagi –Chief Financial Officer.

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 maybe forward-looking in nature and a note to this effect was stated in the concall invite sent to you earlier. We trust you have had a chance to go through the documents.

I now request Mr. Arvind Singhanian to make his opening remarks, over to you sir.

Arvind Singhanian: Thanks Gavin and thank you everyone for joining us on our Earnings Call. I have Pradeep Rustagi with me – our CFO as well. I will begin the discussion for highlighting the key operational development post which Pradeep will run you through the financial highlight.

We had a strong first half as can be seen by the numbers. Revenue and profitability growth of 7% and 85% respectively. The growth has been largely driven by film business which continues to perform well. Specialty polymer as well has performed well during the period contributing to the overall growth momentum. Engineering plastic though is going through a tough phase reflective of the on ground challenges grappling the auto and electric sector, the end user of the product. However, we expect the same to revive with time, on the back of our consistent efforts and overall improvement in the economy and consumption sentiments.

Let me now talk a bit about specific business recent performance and outlook for the same. Starting off with the specialty polymer business: As mentioned in our earlier calls we are expecting the business to perform well during the quarter on the back of order visibility for some of our key products. The business has now had a string of successive quarters wherein the performance has been consistent. One of the major issues we had with the business was achieving the desired consistency which given its nature of the business was not and is not easy. The business is primarily innovation-driven which does inherently involve certain elements of risk.



Nonetheless we believe the business is now attaining the stage and maturity level wherein we can achieve the revenue and earnings visibility for the near future. Majority of the first half performance is largely driven by strong demand sustained in existing Master Batch MB-03 products which continues to see good traction in USA. We are maintaining our guidance of supplying of 1,200 to 1,400 tons of MB-03 for the year compared to the average of 300 to 400 tons in the previous years.

In addition to the MB-03 products, we are also witnessing encouraging response for our other products that is innovative polybutylene terephthalate (PBT), Deep Dyeable Master Batch, MB-07 and Cationic Dye able Master Batch MB-06. We expect good demand for these products as well which should help maintain the momentum. Polybutylene terephthalate (PBT) as many of you must be aware find application across varied industries and products automotive to consumer products and from electronics to fiber. We expect FY20 to see volumes commensurate with the contractual level post which it can grow meaningfully. We expect the specialty polymer business to perform well for the year on the back of the above mentioned developments.

Moving to film business: It continues to drive bulk of the company's overall revenues and profitability. We have seen a strong momentum in the business over the past few quarters now primarily on the back of favorable demand-supply dynamics. The underlying demand continues to remain relatively steady which would help us maintain the volume run rate. Realizations have remained more or less steady with no material impact seen post the increased supply of 35,000 tons per annum hitting the market. We expect the realization to remain steady even after the commissioning of another 30,000 tons per annum likely to hit the market in Q4 of 2020.

In addition to the favorable macro developments, internally as well we are undertaking efforts towards improving the product mix by trying to improve the share of higher margin value-added products which would help preserve the revenues and profitability momentum. We aim to increase the share of higher margin products to 30% by FY21 from present levels of about 20%. Off-line coater will be commissioned in March or April of 2020 and this will enable us to enhance the volume of value-added and specialty products significantly.

Lastly, as far as engineering plastic business is concerned the same continues to remain under pressure largely owing to the challenges grappling its end users auto and electric sector. Demand remains benign and with input prices remaining firm margin continue to remain under pressure. We are nonetheless undertaking steps towards improving, reviving the business by changing its product mix. We are hopeful that our efforts in consumption to the overall improvement in the economy should help us in improving the business performance going ahead.

In addition to the above we are also undertaking several cost rationalization measures which will help us build our unproductive expenses by about approximately Rs.4 to Rs.6 crore per annum.

To conclude: I would just like to state that we continue to remain positive on the business and expect better performance to continue over the coming years. While film business will continue to drive bulk of the near-term growth, we are extremely delighted with the way specialty polymer is shaping up. Its strong product pipeline and improving order visibility, we expect specialty polymer to trigger the next growth phase for the company.

With that I hand over the floor to Pradeep who will run you through the financial performance.

Pradeep Rustagi: Good afternoon everyone and thank you for taking the time out for our call. I trust that all of you have received the Investor Document circulated by us earlier.

Let me quickly summarize the key financial highlights for the quarter and half year following which we can begin the Q&A session.

Starting with the top line: Revenues from operations for the quarter stood at Rs. 254 crore while on a half-yearly basis the same stood at Rs. 538 crore. Bulk of the revenues was driven by film and Specialty polymer business. Engineering plastic business as mentioned by Mr. Singhanian earlier continue to remain under duress owing to the weak demand in the end user segment.

EBITDA for the quarter stood at Rs. 46 crore for the quarter as against Rs. 27 crore reported during Q2 FY19 higher by 71% while on a half yearly basis the same stood at Rs. 100 crore as against Rs. 54 crore reported during H1 FY19 up by 85%. Higher profitability was owing to the better product mix and our cost rationalization measures.

Finance cost for the quarter stood at Rs. 7 crore as against interest outgo of Rs. 9 crore during Q2 FY19. While on a half yearly basis the same stood at Rs. 14 crore compared to Rs. 18 crore reported during H1 FY19. As on September 19, our outstanding interest bearing term debt stood at Rs. 73 crore while interest bearing working capital liabilities stood at Rs. 86 crore. Interest bearing debt as a multiple of annualized EBITDA stood at a healthy level of 0.8x as of 30th September 19 in comparison to 2.67x as at 30th September 18 and 0.95x as at 30th June 19. Depreciation for the quarter stood at Rs. 9 crore as against Rs. 8 crore for Q2 FY19, while on a half yearly basis the same stood at Rs. 17 crore as against Rs. 16 crore reported during H1 FY19.

Profit after tax for the quarter grew by 164% to Rs. 19 crore as against profit of Rs. 7 crore generated during Q2 FY19. While on a half yearly basis profitability grew by 194% to Rs. 43 crore. Higher profitability while was largely on back of positive performance of film and specialty polymer business. Our cost rationalization measured as well as started contributing towards the bottom line.

As indicated by Mr. Arvind Singhanian earlier we expect annual savings of around Rs. 4 to Rs. 6 crore on the back of such actions.

To conclude: We believe that we are well placed to create significant value for our shareholders on the back of steady momentum in the film business. Specialty polymer business as well has started to perform consistently in recent times and with better order visibility we expect the business to deliver the expected returns.

Lastly, while Engineering plastic business goes through a challenging time at present, we believe that it is temporary in nature and expect the business to revive going forward. That concludes my opening remarks.

We would be happy to answer your questions now.

Moderator: Thank you. The first question is from the line of Aman Sonthalia from AK Securities.

Aman Sonthalia: Sir, what is the current spread in BOPET?

Pradeep Rustagi: The September quarter we were at operating about Rs. 41 and currently it is in the range of Rs. 50.

Aman Sonthalia: It has increased by Rs. 9?

Pradeep Rustagi: Currently. October was lower, but the current prices are better than the October and it is better than the September quarter presently.

Arvind Singhania: I will clarify that a little bit more. In June quarter we were at about Rs. 50 - Rs. 51 in September quarter it was Rs. 41 and now we are back to about Rs. 50 to Rs. 51.

Aman Sonthalia: Sir, whether it is sustainable, or some new capacities are coming up so whether it will go down from here onwards?

Arvind Singhania: Well, one line of Jindal has already started up in early August and it has minor impact as we have seen spread drop of Rs. 51 to Rs. 41 in September quarter and this line is now in production and the next line of Surat Metallic is expected to startup in Q4 2020 and there may be some minor price adjustments at that time, but largely, we do not see any major issues.

Aman Sonthalia: And what about the specific polymer sir what is the current contribution in turnover?

Pradeep Rustagi: So this quarter, Specialty Polymer did a turnover of Rs.19 crore in out of overall turnover of Rs.254 crore so it is close to 8% as of now.

Aman Sonthalia: Going forward in the next two years how much we can expect from here?

Pradeep Rustagi: So in the current year in the first half we have achieved a turnover of about Rs.35 crore and we expect similar number in the second half. So this year we should be aiming between in the ballpark of Rs.70 crore for specialty polymer and next year it should be definitely better than Rs.70 crore.

Aman Sonthalia: And EBITDA margin is around 20% in this business?

Pradeep Rustagi: EBIT margins for the business is about 30%+

Moderator: Thank you. The next question is from the line of Agastya Dave from CAO Capital. Please go ahead.

Agastya Dave: Sir, just to clarify to the previous question that was asked you said EBIT margin is 30% or EBITDA margin

Arvind Singhania: For the business we do segmental results as required by the accounting standard which asked us to calculate EBIT earnings before interest and tax without loading of un-allocable expenses. So that is about 30% plus for specialty polymer business as of now.

Agastya Dave: And sir how much CAPEX are we expecting over the next two to three years in the three division that we have, any ballpark numbers I know it is too early for let us say next year or year after, but ballpark what you have in mind, what kind of capacity expansion

Arvind Singhania: We have no capacity expansion going on we have about Rs.65 crore of CAPEX going on which are minor debottlenecking exercises etcetera plus normal CAPEX which the company goes through about Rs.65 crore are currently in ongoing.

Agastya Dave: And nothing major going forward right for the next let us say two years?

Arvind Singhania: Right now we have not finalized anything else.

Agastya Dave: So what is your capacity utilization like in the three products?

Arvind Singhania: In film business we used to have a nameplate capacity of 57,000 tons we are actually more than 57,000 tons, we are doing actually nearly 60,000 tons per year and in specialty polymer business, the capacity utilization number is actually not very meaningful because the capacity we have not created especially for specialty polymer they have their own batch line which were used for making film-grade chip so that is really not meaningful number.

Pradeep Rustagi: In Engineering Plastics business, it would be in the range of 60% to 65%.

Agastya Dave: And sir in specialty you said that it does not make sense to talk about the capacity utilization, but you have enough room to manage for the next two years right?

Arvind Singhania: We have enough room to manage on base polymer and we may need to do some debottlenecking for different kind of products, but for base polymer we have enough capacity.

Agastya Dave: And sir final question is there any seasonality in the business should we looking at quarterly number or quarter-on-quarter numbers, so if I look at the quarter-on-quarter numbers there is a slight decline so is that because of the current economic environment you are seeing some sort of a slowdown or this generally happens in September, how do I look at quarter-on-quarter?

Arvind Singhania: There is no seasonality in our business like carbonated soft drinks in summer it is sold more and in winter it is sold less, we have no seasonality. Basically the reduction in the turnover is because the raw material prices came down substantially and we have a pass through model for raw material. Pradeep can give you the exact number for raw material in June compared to September.

Pradeep Rustagi: I will give the PTA and MEG number put together for per kg of films. In June quarter it was Rs. 69 which in the September quarter which dropped to Rs. 62 so there was a Rs. 7 drop in the PTA and MEG per kg of film and as Mr. Singhania told it is a pass through model that there was a corresponding reduction in the selling price also of the film. So we have improved in the quantity front, but value front there has been a downturn because of the reduction in the feedstock prices.

Arvind Singhania: If we take 15,000 tons approximately 15,000 ton production per quarter at Rs. 7 where you are talking about a Rs.10 crore reduction only because of raw material price.

Agastya Dave: So this Rs.10 crore is you are saying with respect to revenue or with respect to gross profit?

Arvind Singhania: Revenue.

Agastya Dave: And in the gross margin?

Arvind Singhania: And also the margin also reduced by about Rs. 10 from Rs.51 it came to Rs.41. All in all the revenue would have been higher by Rs. 17 a kilo so you can do the Math I mean it is like the top line would have been higher by more than Rs. 20 crore.

Agastya Dave: And the variation because of Rs.51 falling to Rs.41 would reverse now because you are seeing better spreads?

Arvind Singhania: So we had a spread in October it was still at about Rs. 40, Rs. 41 and now in November it has increased back to 50 plus.

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

Saket Kapoor: Sir, firstly sir is this a paradigm shift in the quality of numbers that we can expect now on a sustainable basis means has the pitch is now ready for where we can forgoing the unseen environment. We can report these set of number on a sustainable basis how confident are you?

Arvind Singhania: We are confident of giving good set of numbers going forward and especially in our Specialty polymer business which is not cyclical by nature at all it has taken a long time, but it has better visibility going forward. So like we said that we will be doing about Rs.70 odd crore turnover we expected about Rs.70 crore turnover in FY20. We expect significant improvement in FY21.

Saket Kapoor: But the backbone will be the film segment only the major of the turnover major EBITDA everything is coming from the film, so your outlook is definitely skewed for better revenue from the specialty polymer?

Arvind Singhania: Even film business going forward is looking good to us because we have already had one line, new line startup in August it had little bit of an impact as I had mentioned in the June quarter call that there may be some impact and which was not a very substantial impact and it is now reverted back and going forward even after the next line starts up in Q4 FY20 there may be some marginal impact, but overall we see the film business doing well going forward.

Saket Kapoor: How is the position globally sir I mean this is what domestic has been, so how are film companies globally doing and what is the capacity additions that may happen going forward any idea, any understanding you want to share?

Arvind Singhania: So as far as the global business is concern polyester film there is a global demand growth of about 5% to 6% on a global basis which is very good number if you take it as a global perspective and there are new capacity starting up in the global markets. There is line of polyplex starting up in Indonesia in the next month or so. Then there is a line of SRF starting up in Hungary and there is a line of uflex starting up in Poland so we know three expansions which are starting up.

Saket Kapoor: Sir, what is our domestic market share in the polyester film?

Arvind Singhania: It is between 8% to 9%.

Saket Kapoor: And the largest player being Jindal having a market share of?

Arvind Singhania: Jindal market share will be about 15%.

Saket Kapoor: Jindal will be the largest player domestically?

Arvind Singhania: Yes.

Saket Kapoor: And sir now coming to the duty structure part how does duty benefits are there whether this films can be imported, or any protection being provided?

Arvind Singhania: There is a 10% custom duty on import of film. Import is not viable today even at these prices.

Saket Kapoor: And Pradeep ji you are telling about the raw material basket I missed that part if you could give separately how PTA are and MEG prices moved sir for this last quarter?

Arvind Singhania: So prices have come down by about Rs. 7 of kg over June quarter.

Saket Kapoor: If you have the mix separately?

Pradeep Rustagi: June quarter PTA was Rs. 63 which reduced to Rs. 56 in September and currently in the range of Rs. 52 to Rs. 53 and MEG in June quarter was Rs. 44 which reduced to 42 in September and currently in the range of Rs.44.

Saket Kapoor: And the mix sir for kg what is the proportion for PTA?

Pradeep Rustagi: You need 0.86 of PTA and 0.34 of MEG and that is how you arrive at the per kg cost of PTA MEG for kg of film.

Saket Kapoor: Sir, if I come to your balance sheet it now looks much healthier you have been as per the cash flow a lot of repayment has taken place, sir if you clarify what have been other financial liabilities and the other non-financial current liabilities in under the liability section?

Pradeep Rustagi: In current liability there are provision, trade payables, so these are small creditors. There are no sort of major amount payables these are all current in nature in the normal course of the business related to expense provision, related to services provisions freight etc and the material supplied that all comes in the trade payables.

Saket Kapoor: And other non-current liabilities of Rs.26.5 crore?

Pradeep Rustagi: Long-term like there are security deposit received from few and what happens at when you go for actuarial evaluation so there two portion comes from the certificate there is a current portion and there is a noncurrent portion. So as per the certificate noncurrent portion is disclosed separately and current portion is disclosed separately. So these are liabilities which will continue as it is. No major increase or reduction is envisaged in the liabilities. This will remain business as usual basis.

Saket Kapoor: Sir, now coming to your statement sir you told you are in the process of creating shareholders value so if you could elaborate what steps are you contemplating to create because market is definitely looking at the quality of the numbers on a sustainable basis. If you look at today your EBITDA of Rs.100 crore if I am not wrong the market capitalization is around Rs.300 crore with promote stake I think we are comfortably above 50%, so what message are you or what steps are you going to take to create that value going forward if you could articulate more on the same then one more question and I am back in the queue?

Arvind Singhania: We are going to create stakeholder and shareholder value by having a sustainable profitable growth going forward. If you will notice our debt has come down from a level of Rs.290 crore as of March 2018 to a level of Rs.158 crore there is a reduction of more than 45% in a period of 18 months. So our leveraging will be very prudent level, we are going to try to continuously increase profitability on a sustainable basis

and focus will be on the specialty polymer business to go that aggressively because the margins and returns on the specialty polymer businesses is very good and we see a good visibility of that segment doing well in the coming quarters and years. As far as the film business is concerned we are going to see that the market is supporting us right now as far as demand and supply is concerned. We see that continuing going ahead plus we are going to improve the profitability of the film business by going more into value-added products. Our new off line coater is going to start sometime in January, February and that is going to help us increase the value-added product portfolio substantially from the level of 19%-20% to about 25%-26% and take us closer to our target of 30% which we hope to achieve by FY21 or in middle of FY22. So going forward we are going to continuously try to improve profitability and margins and take up an expansion at the appropriate time when we seek that we are in a position to do that without taking on too much debt.

- Saket Kapoor:** So lastly on the dividend payout policy sir, now with better cash flow better visibility of earnings what should investors look forward in terms of we have done in EPS of Rs. 5 for the first half and our last year EPS was 3.75, so if we can annualize it with minor adjustment up and down what should investor look for the dividend payout if you could guide us?
- Arvind Singhania:** We do not have a written down dividend policy the board takes a view. The only thing that the only statement that I will make here is that as a company we like to share prosperity with our shareholders.
- Saket Kapoor:** And sir for you as a chairman and the MD director remuneration are fixed or is it the way the variable component depending upon the profitability?
- Arvin Singhania:** Yes, there is a commission which by law we are allowed to take, and the Board decides the level of commission that will be paid to the whole time directors.
- Saket Kapoor:** And what was it last year sir as a percentage of profit?
- Pradeep Rustagi:** The last year it was 10% of the profit as calculated under section 198 of the Companies' Act it works out to be Rs.4 crore last year.
- Saket Kapoor:** Rs. 4 crore was paid to the whole time director and what was the different payout sir last year?
- Pradeep Rustagi:** It was 10%.
- Saket Kapoor:** In absolute terms sir?
- Pradeep Rustagi:** The absolute terms it was Rs.4.2 crore and then there were dividend distribution tax on that.
- Saket Kapoor:** So Rs.5 crore for the shareholder community and Rs. 4 crore for the whole time director that is what precisely it is.
- Moderator:** Thank you. The next question is from the line of Lakshman Modi an Individual Investor. Please go ahead.
- Lakshman Modi:** Sir, just I wanted your opinion about this income tax amendment which has taken place recently although you have given in the note that you are looking into it, but how much benefit we will derive out of that?

Pradeep Rustagi: As after the notification there was a clarification issued by the CBDT 15 days or 20 days later saying that any company which is opting for a lower rate of tax will need to forego of the MAT credit that is available in its book. So since we already have Rs. 18 crore on 31st March 19 sitting as a MAT credit in our books we have decided not to take advantage of the lower rate of tax in the current financial year. So once we exhaust the MAT credit which would be exhausted latest by March 21 then we will go for a lower rate of tax option. So for two years we will continue with the existing tax regime and our payouts will be lower than the lower rate of tax because we would be required to pay out only MAT because the earlier MAT credit available will be adjusted to discharging the tax liability.

Moderator: Thank you. The next question is from the line of Agastya Dave from CAO Capital. .

Agastya Dave: Sir, you have mentioned total debt number which I missed I can see Rs.160 crore - Rs.165 crore in the balance sheet under borrowings, so what is the current maturity of borrowing long term debt?

Pradeep Rustagi: The current maturity for FY19-20 was Rs.23 crore out of which Rs.11 crore has been already paid as per the schedule by 30th September.

Agastya Dave: So these remaining Rs.12 odd crore will be part of other noncurrent liabilities of the balance sheet?

Pradeep Rustagi: The amount payable in the next 12 months is classified as current portion and the amount payable beyond 12 months is classified as non current liabilities.

Agastya Dave: Sir, one line is there in the other non current liabilities which is current maturity of long term debt?

Pradeep Rustagi: Current maturity of long-term debt I am telling you it is Rs.23 crore for the financial year 19-20, out of which Rs.11 crore has already been paid till 30th September.

Agastya Dave: So total debt how much is it sir long-term, short term just little maturity?

Pradeep Rustagi: As on 30th September the total term debt is Rs.73 crore which includes the current portion of liability also.

Agastya Dave: And what is that number today the total number including working capital?

Pradeep Rustagi: Working capital put together is Rs.86 crore interest bearing. Total interest bearing term debt and working capital is Rs.159 crore.

Agastya Dave: Sir, of the working capital side can we expect any reduction in working capital days or this number is optimal what you have today?

Pradeep Rustagi: No, you are talking of the level of inventory debtors etc in terms of working capital.

Agastya Dave: Yes correct working capital cycle whatever number of days we have is at level optimal or can we expect certain improvement of there will be some deterioration?

Pradeep Rustagi: We constantly work on these numbers we have it more watch on this numbers the inventory level to debtors level and it is there in our focus and we continuously make attempts and efforts to reduce the cycle time.

Agastya Dave: So you are satisfied with work up today?

Arvind Singhania: We will continue to work on reduction in this. What we have today is very satisfactory, but we continue to try to improve upon it all the time.

Agastya Dave: Sir, if I go to the results for this quarter and you have Rs.48 crore of EBIT from the polyester chips and film business, so the specialty part is also there so how much is the specialty portion of that?

Pradeep Rustagi: Yeah so out of Rs.48 crore - Rs.41 crore is from chips and films and Rs.7 crore is from specialty polymer business.

Agastya Dave: And sir can you give the same number for Q1 and the Q2 of last year?

Pradeep Rustagi: So June 19 quarter film was close to Rs.50 crore and Specialty polymer was Rs.6 crore and in September 18, Specialty polymer was Rs.3 crore and film was Rs.25 crore.

Agastya Dave: And sir final question sir you mentioned that the corporate market seems pretty good to you and there is few lines coming in, but you think that it can be easily absorbed what about certain substitutes I was on a call yesterday with one of your competitors so not strictly a competitor, but they also do certain films, so they were saying that their margin expect some certain amount of compression, their gross margin were somewhere close to Rs. 30 a kg for a variety of products. So they were saying something slightly different than what you are saying so on the spreads can you elaborate a bit more on the substitute also is there a way, is there any way imports you have ruled out because they are not viable, but other than that is there anywhere where you can see some pressure?

Arvind Singhania: If you are talking about for Polypropylene film the market is clearly segmented .The market is very clearly segmented between Polypropylene and polyester so because of the inherent properties at both the products. Polypropylene gives the better water vapor barrier and polyester gives a better oxygen barrier or gas barrier. So the market is much segmented and there is very marginal overlap between the two products. So there is really no competition from Polypropylene as far as polyester is concerned and the dynamics of both the businesses are completely different so one cannot be compared to the other.

Moderator: Thank you. We will move on to the next question that is from the line of Aman Sonthalia from AK Securities.

Aman Sonthalia: My question is that the balance sheet of the company is very light right now and there are no major CAPEX planned. The company is coming out with some dividend policy for the shareholders.

Arvind Singhania: No, we do not have a written down dividend policy, but the Board takes a view depending on the performance of the company and the performance going forward the Board takes a view of the dividend distribution and this is what we are going to do again at the end of this year.

Aman Sonthalia: And sir any major CAPEX plan for the next two, three years?

Arvind Singhania: As of now I just mentioned that we have ongoing CAPEX of about Rs. 65 crore and the next year CAPEX there is no major capacity expansion plan if you are talking about polyester film or anything.

Aman Sonthalia: So this CAPEX is for which plant sir?

Arvind Singhania: These are all small debottlenecking CAPEX plus normal CAPEX that we have every year.

Pradeep Rustagi: And off line quarter for film business, which is about Rs.15 - Rs.20 crore.

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

Saket Kapoor: Sir, to be very brief how much power & fuel constitute as our expenses sir?

Pradeep Rustagi: Our power and fuel which includes Steam, Heat is close to Rs. 6 crore a month.

Saket Kapoor: So this quarter is around Rs.18 crore?

Pradeep Rustagi: Yeah Rs.18 crores to Rs.19 crore per quarter.

Saket Kapoor: And that is being debited in the other expenses?

Pradeep Rustagi: The results are declared as per the format provided by SEBI.

Saket Kapoor: Sir, as we see the turnover in this polyester chip and film segment was Rs.217 crores that moved up to Rs.218 crores but margins have moved up I mean what factors did actually played up that resulted in this substantial share our spread has improved what has been there and what was the tonnage for September 18 and tonnage for September 19?

Pradeep Rustagi: I will first give the tonnage for film business. The film in September quarter was 15,065 ton and June quarter it was 14,500 tons. So there is an increase of about 500 tons of this film sales quantity and chip sales quantity in June quarter was 3,400 which reduced to 2,500 in September quarters. The results have improved in the film segment because of the increase in the value addition and the specialty polymer is also part of this segment so there is an improvement in specialty polymer, there is an improvement in film. As a result the EBIT from this segment has increased.

Moderator: We will move on to the next participant that is from the line of Gulshan Patni, Individual Investor.

Gulshan Patni: I have one question what is your CAPEX plan for the second half?

Pradeep Rustagi: Second half of this financial year we would spend Rs.30 to Rs.35 crore.

Gulshan Patni: And this is largely maintenance CAPEX?

Pradeep Rustagi: No, there are two major machine that we are installing one is extruder and one is offline coater as Mr. Singhania told in his opening remarks.

Gulshan Patni: Well, this is for maintenance, or this is for growth?

Arvind Singhania: This is for value-added products.

Moderator: Thank you. The next question is from the line of Agastya Dave from CAO Capital.

Agastya Dave: Sir, this single use plastic ban is there anyway any effect can come to you I mean how are you guys placed how polyester films placed?

Arvind Singhania: I do not see any effect of the single use plastic because, it is a question of definition. We are not being classical single use plastic like a fork, spoon, plate, knife, straws, etc., because those are the final products our products is used in the manufacture of food product of packaging, so it is part of the process and multilayer plastic are fully recyclable. So there is no threat as far as polyester film is concerned going forward and we have also proven this there is technology available to recycle multilayer plastic and make injection molded components.

Moderator: Thank you. The next question is from the line of Saket Kapoor from Kapoor Company.

Saket Kapoor: Sir, could you give me the mix for specialty film for the first half versus last year first half sir?

Pradeep Rustagi: So the percentage as we told you that it is in the ballpark of 20% proportion of the film is through value-added and specialty products.

Saket Kapoor: You mean to say the metallized sense that is what?

Arvind Singhania: Value-added products right now we are doing about 20% of the total volumes of polyester films. They do not include the plane metalized film.

Saket Kapoor: But sir metalized film itself in its form have the higher margin than the pure film?

Arvind Singhania: Yes.

Saket Kapoor: And what is the difference sir?

Arvind Singhania: There are so many products in value-added products.

Saket Kapoor: And sir then how this value-added mix is going to change sir meaning today it is 20% out of the total capacity, what are we envisaging for the next half for the remaining 20% and what should be the ideal figure for the next year?

Arvind Singhania: So I just mentioned that earlier we are at 20% right now. Our offline coater is starting up by March and that will take our total value-added product portfolio from 20% to about 25%- 26% and our target is to reach 30%.

Saket Kapoor: What is the new thing we are starting sir?

Arvind Singhania: Offline coating machine.

Arvind Singhania: That is starting up by February or March.

Saket Kapoor: That will be a margin addition going forward?

Arvind Singhania: Yeah that will give us a margin addition.

Saket Kapoor: Sir, in earlier two, three calls earlier you did spoke about some rationalization of your office spaces also has that all been done and the effect being seeing in the P&L?

Arvind Singhania: That is, we are trying to do, but it has not yet happened as yet. The real estate market is not very good.

Saket Kapoor: You were trying to dispose-off the office and moved to some other place?

Arvind Singhania: Yes, correct.

Saket Kapoor: So we are still continuing with the previous property?

Arvind Singhania: The effort is going on.

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

Arvind Singhania: Thank you everyone for joining Ester Q2 Earnings Call and I look forward to talking to all of you after the next quarter. Thank you very much.