



Ester Industries Limited

Q3 FY20 Earnings Conference Call

February 12, 2020

Moderator: Ladies and gentlemen, good day and welcome to the Ester Industries Limited Q3 FY20 Earnings 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 Q3 & 9 months FY20 Analyst & Investor Conference 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 interactive Q&A session.

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

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 by highlighting the key operational developments, post which Pradeep will run you through the financial highlights.

To begin with, I would just like to say that we have maintained our first half momentum into the current quarter which witnessed profitability growth of 130% over previous year. The growth was largely driven by the positive performance of the Film and Specialty Polymer business. Engineering Plastics business though continues to remain soft in line with the overall economic slowdown and sluggishness in the auto sector, the biggest end user segment for the business. Besides the improved performance of Film and Specialty Polymer business other reasons which drove the profitability was reduced interest cost subsequent to reduction in interest-bearing debt.

Moving on to business wise performance: Starting with Specialty Polymer business: Performance during the year till date has been extremely strong. In addition to the accelerating revenues, profitability as well has seen a sharp bump up in recent quarters. FY20 could very well be turnaround year for the business. After few initial soft years wherein the business had few ups and downs, we believe that we have now reached the stage and maturity wherein it can deliver on a consistent basis. Order visibility in general remains high. We have a strong patent protected portfolio

in this business. While the demand for MB 03 has remained high during the year, we have other products as well in our portfolio which have seen good demand and inquiries.

Let me talk about a few of them. The innovative Polybutylene Terephthalate (PBT), Deep Dyeable Master Batch MB07 and Cationic Dyeable Master Batch MB06. Polybutylene Terephthalate as I mentioned in my previous calls finds application across industries and products, automotive to consumer products and from electronics to fibers. We have entered into an agreement with global chemical leader in April of last year for a period of 2 years to certain quantum annually. While those volumes maybe relatively low, there is a possibility for significant upside. The agreement is renewable by mutual consent after 2 years. For MB03, though we maintain our guidance of supplying about 1,200 metric tonnes during the year compared with the average of 300 to 400 metric tonnes in the previous year.

Also, as many of you may be aware, the Board recently approved investment of Rs. 110 crore for the business to help with the growing needs of the existing and new customers for existing as well as new products. The investment of Rs. 110 crore spanning over approximately 2 years will help generate incremental Specialty Polymer revenues of around Rs.180 to Rs.190 crore.

As I mentioned in the past, Specialty Polymer business is a very high margin business. It enjoys these high margins because its product portfolio represents innovation. The product portfolio that we have is a result of an immense amount of hard work and trial that has spanned over the last 7 years. We are delighted with the results this business is now showing and believe that we will see more traction going forward. The Specialty Polymer business is a key catalyst which will help us transform into an innovation driven company.

Moving on to Film business: Volume continued to remain high during Q3, in line with the recent period. The realizations as well have remained more or less steady. We have not seen any meaningful impact of the incremental capacity which came on stream during the year. The underlying demand conditions remain steady in turn helping market absorb the additional supply. Further, we have also been working internally towards improving our product mix by increasing the share of value-added products. As mentioned in our previous call, we are targeting to increase the share of high margin products to 30% over the next 1 to 2 years from present levels of approximately 20%.

We are about to commission a new offline coater by March 2020 which will help us achieve this target. We are also evaluating the existing and emerging demand supply scenario. Any decision we take in terms of increasing the capacities will be taken after a thorough evaluation and analysis.

Lastly, as far as Engineering Plastics business is concerned, the performance of this segment continued to be weak, impacted by the extreme slowdown in the auto segment. The continuous downside in the auto sector, however, seems to have been arrested. Signs of revival have been seen in the electrical and electronic segments, the other large end use segment with promise of the next quarter performance seeing some improvement. We continue to focus on cost rationalization measures which in conjunction with the improving business performance has been helping and expanding the profitability.

To conclude, I would like to reiterate a positive stance on the business. We expect Film business to deliver steady performance in coming quarters whereas the improvement in Specialty Polymer business should continue in FY21 in turn pulling

up the overall profitability of the business. Engineering Plastics business should revive in sync with the pickup in overall economy. Further, cost rationalization measures as well should improve efficiencies and margins of that business.

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

Pradeep K 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 nine months, following which we can begin the Q&A session.

Starting with the topline: Revenues from operations for the quarter stood at Rs. 246 crore while on a nine-month basis, the same stood at Rs. 785 crore. Bulk of the revenue was driven by the Film and Specialty Polymer business. Engineering Plastics business continues to remain soft largely owing to overall economic slowdown and sluggishness in auto demand.

EBITDA for the quarter stood at Rs. 45 crore as against Rs. 29 crore reported during Q3 FY19, higher by 56% while on a nine-month basis, the same stood at Rs. 145 crores as against Rs. 83 crores reported during nine- 9MFY19, higher by 75%. Higher profitability was owing to improved margins in Film SBU as well as increase in sales of Specialty Polymer SBU especially high margins products like MB03 and Innovative PBT.

Finance cost for the quarter stood at Rs. 5.3 crore as against interest outflow of Rs. 8.9 crore during Q3 FY19. While on a nine-month basis, the same stood at Rs. 19.6 crore compared with Rs. 26.4 crore reported during 9MFY19. As on December '19 outstanding interest-bearing term debt stood at Rs. 72 crore while interest-bearing working capital liabilities stood at Rs. 99 crore. Interest-bearing debt as multiple of annualized EBITDA stood at healthy level of 0.89x as on 31st December 2019 in comparison to 2.49x as on 31st December 2018 and 0.8x as on 30th September 2019.

Depreciation for the quarter stood at Rs.9 crore as against Rs.8.4 crore for Q3 FY19 while on a nine-month basis, the same stood at Rs. 26.4 crore as against Rs.24.2 crore reported during - 9MFY19. Profit after tax for the quarter grew by 132% to Rs. 19 crore as against profit of Rs. 8 crore generated during Q3 FY19. While on a 9-month basis, profitability grew by 172% to Rs. 62.6 crore, higher profitability was largely on the back of positive performance of Film and Specialty Polymer business.

To conclude, we believe we are well on track to create significant value for our shareholders in the coming years. Bulk of the business is in good shape. Volumes continue to remain steady in terms of business. Realizations as well have remained steady despite additional supply entering the market. Specialty Polymer business as well is expected to deliver steady performance in turn helping drive the profitability.

Lastly, Engineering Plastics 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 very much. We take the first question from the line of Agastya Dave from CAO Capital.

Agastya Dave: Sir, there are few gaps in my understanding after this new round of CAPEX has been announced. So could you give the breakup of all the CAPEX that you will be doing over the next 3 years? And also the gross block breakup between the 4 divisions of Specialty Polymer, value-added films, normal films, and Engineering Plastics part. And also for these 4 divisions, can you also give the capacity utilizations as of today and what would be the capacities post expansion? And my second question is on the PTA. The way prices have come off and the way the duty structure has been changed. What would be the net gain to us if any? .

Arvind Singhania: I will answer the last question first, on the PTA. I have maintained before in my previous earnings calls as well that in all our business models and PTA is relevant in the case of Film. It is a pass-through model. So the price reduction or increase is pass-through, so that takes care of that.

Pradeep K Rustagi: The capacity utilization, we can give you the breakup and the Film, the capacity is almost 100%. In metallized film, we are operating at about 85% and Engineering Plastics, we are at about 60%. Specialty Polymer utilization as of now is very low. We have built the capacities for much larger volumes.

Arvind Singhania: The capacity is actually already existed from before. We converted our batch line which will be used to make commodity film grade polymer we use the same capacity depreciated plant to produce the Specialty Polymer.

Pradeep K Rustagi: And as far as the plant and machinery for each business is concerned, that is something we will give you in the next earnings call. .

Agastya Dave: Can you give the breakup of the CAPEX also for the next few years?

Arvind Singhania: So there is only one major CAPEX which has been taken, which has been approved by the board which is Rs.110 crore of Specialty Polymer. No other major CAPEX has been approved.

Agastya Dave: Sir in Specialty Polymer, you said that you already have a fairly low capacity utilization. So are you adding just more capacity or are you adding more capabilities? How exactly are you going ahead with this?

Arvind Singhania: It is a very good question. I am not adding more capacity because we have enough capacities. We are adding a new capability.

Agastya Dave: Can you like elaborate a bit more about that?

Arvind Singhania: I cannot elaborate too much right now, but I can tell you that it is from the lines of sustainability.

Moderator: We take the next question from the line of Saket Kapoor from Kapoor & Company.

Saket Kapoor: Sir, firstly in your opening remarks, you did mention about this value creation idea. So if you could dwell more on the same sir in what way are you going to reward your shareholder?

Arvind Singhania: See, shareholder value creation first of all starts from the basic fundamental principle of profitability. The more the profit, the higher the reward to the shareholders. So our first objective is to continue to increase the overall margins of the business and continue to improve profitability and grow the business. So that is the fundamental thing. The second part of rewarding the shareholders is concerned

come through dividend payouts which we have a full intention of rewarding the shareholders handsomely and we intend to propose to the Board a very decent and a handsome dividend payout when we do the final closing of the annual year which will be towards the end of April or early May, and we will also come out with a dividend distribution policy in that same meeting.

- Saket Kapoor:** You are absolutely right. These are the things which we investors look forward and kudos to your team and that you are on that track in helping in building the confidence. Now coming to the CAPEX part, as the outline that Rs.110 crore CAPEX is in the anvil and it will take around 2 years for that capacity to be on stream. So sir what gives you this confidence at this juncture because the Specialty Polymer has just started evolving sir after a gestation period of more than 2 to 3 years, it is only 2 quarters now that you are seeing things moving up and the utilization levels also moving up. So just give the insight sir that what are the levers on which you are harping this CAPEX on?
- Arvind Singhania:** This is like, as i answered in the previous question, we are building a completely new capability. It is not on the same product lines. This CAPEX is expected to start yielding returns straight away, so it is not that we are going to invest Rs. 110 crore and wait for 5 years or 6 years. The ramp up of this will start almost immediately.
- Saket Kapoor:** Sir in the presentation part in page #11, the headline is expect business momentum to continue in FY21 and the first line which you have used is partnered with a global chemical leader in manufacturing Innovative Polybutylene Terephthalate, PBT. Is this a raw material that goes into our Engineering Plastics because in Engineering Plastics, we find the product, Polybutylene Terephthalate PBT being mentioned under the product category. So just wanted the correlation sir?
- Arvind Singhania:** No, there is no correlation between the PBT being used in the Engineering Plastics division and this Innovative PBT that we are supplying to this global MNC.
- Saket Kapoor:** Sir, what is this all about sir? What should investor look into this line sir partnering with the global chemical?
- Arvind Singhania:** See, this is a very innovative PBT. It is a sustainability effort and it is made from recycled PET. So it has a very high RPET content. And as you know the world is going towards higher sustainability and environmental consciousness, so people are demanding more and more products made from recycled material and therefore this product is going towards meeting that demand and that need.
- Saket Kapoor:** This would be clubbed in which category sir?
- Arvind Singhania:** This is part of Specialty Polymer business.
- Saket Kapoor:** Sir in the value-added Film segment sir, what was the contribution for the quarter in 9 months in turnover terms sir?
- Pradeep K Rustagi:** In terms of volumes, we are at about 20%. In terms of the sales from the VAS product, we have done close to Rs.110 crore in 9 months.
- Saket Kapoor:** We did total revenue of Rs.153 crore which is clubbed under polyester chips and films. And out of that, value-added has contributed to Rs.110 crore?
- Pradeep K Rustagi:** I am saying Rs.110 for 9 months.

- Saket Kapoor:** And sir coming to the business environment for the BOPET segment, as your competitor lines have already commercialized the same and you have told that the impact had been on the lower side. So what has aided to that because on the FMCG part, there has been a decline in the consumption pattern. So what has attributed to this absorption of fresh capacity?
- Arvind Singhania:** To our understanding, what we understand that yes, FMCG is seeing a decline in the growth rate, but because of this slowdown in the economy and the GDP, there is a conversion from higher price packs to slower price packs. So for example, people are now buying less bottles of shampoos and buying more sachets of shampoos.
- Moderator:** The next question is from the line of Priyasha Mohanti from Dolat Capital.
- Priyasha Mohanti:** My question was on the CAPEX of the Film business and the SP business over the next 2 years and what is the outlook of it? I think more or less I have got the answers. The third question I wanted to ask was about the Engineering Plastics business. Sir, what has been the bandwidth around it and how do you see it growing further, the performance has been soft as you mentioned so what is your plans for it?
- Arvind Singhania:** The performance of the Engineering Plastics business has been soft because of the slowdown in the economy in the auto and electrical segment. It was directly linked to that and in the last 2 months, we have started seeing some improvement in the sector and our performance has improved in the month of December and in January. And we expect that this momentum will continue. So we hope to start seeing a revival in the prospects of the Engineering Plastics business going forward as well.
- Moderator:** The next question is from the line of Dharmendra Dave from Prabhudas Lilladher.
- Dharmendra Dave:** Sir, although you just mentioned on the previous participant that the Engineering Plastic SBU is looking to come out of the pressure, but having said that, if we look at segmentally, the Engineering Plastic business has been a continuous dragging down the total Ester's performance. So are you planning to any strategic plan like divestment or merger on this SBU particularly?
- Arvind Singhania:** Well, all I can say on this point is that if there is a good opportunity for divestment, we will certainly have a good look at it and if a good offer is made, we will view it favorably. Just want to add that if such a thing were to happen that the EP business were to be divested, then this would actually make Ester virtually debt-free as well.
- Dharmendra Dave:** And coming to Specialty Polymer business sir, it has been growing exponentially very well on both on the volume and value side also as well as on the margin side. So what could be the potential for this particularly this segment in terms of sales over what timeline and also on the margin side sir?
- Arvind Singhania:** So we did a total sale value of about Rs.32 crore for FY19 and we will do about Rs.70 to Rs.75 crore for FY20. So more than we will double it in this current year over the previous year. This investment that we are making of Rs.110 crore in the Specialty Polymer business will yield a turnover of about Rs.200 crore additional, part of it will start coming because first part of that expansion will start up in May this year which is a smaller part and this will start yielding results let us say towards the end of the calendar. So this investment itself will give additional revenue of about Rs.200 crore over the next 2 to 2.5 years at the run rate of Rs.200 crore per

year. And on top of that, all the other products that we are working with, which I mentioned which were the Cationic Dye-able, MB06, MB07, Easy Dye-able and there are 2 or 3 other products which I am constraint to talk about in detail. We expect that over 4 to 5 years to reach a turnover of about Rs.400 to Rs.500 crore seems absolutely possible with margin levels commensurate to what we are doing right now.

Dharmendra Dave: The current kind of margins are sustainable?

Arvind Singhania: Yes.

Dharmendra Dave: So if we see the polymer is roughly around 10% of the packaging segment, so over the 4-5 years, how could we see at the topline and EBITDA level? Will it be half.

Arvind Singhania: Right now, the Film business is doing at about Rs.650 crore a year. It is about Rs.650 crore annually and chips is Rs.100 crore extra. But if I were to take only film, it is about Rs.650 crore and this year we are doing Rs.75 crore, so little more than 10% is the Specialty Polymer contribution in terms of topline. And if there is no further increase in capacity in film and this remains same at Rs.650 crore in the next 5 years, we go to Rs.500 crore, then Specialty Polymers become very significant proportion to overall business.

Pradeep K Rustagi: 30% to 40%.

Dharmendra Dave: So 30 to 40% on a topline, but EBITDA level it would be even higher?

Arvind Singhania: Yes. So right now let us say if we are doing about Rs.1,000 to Rs.1,100 crore, you add about Rs.400 crore to topline, so we got about Rs.1500 crore, for which Rs.500 crore would come from Specialty Polymer and Rs.650 crore would come from Film, Rs.200 crore would come from chips.

Dharmendra Dave: On the packaging film side, what is the outlook particularly for the fourth quarter and the first half of FY21?

Arvind Singhania: Well, fourth quarter is looking pretty steady. There has been no major upheaval in terms of pricing, even though 2 lines have started up and now fully operational. So the fourth quarter is looking steady. We hope that this trend will continue for the next financial year as well.

Moderator: Thank you. The next question is from the line of Rajesh Agarwal from Moneyore Investment.

Rajesh Agarwal: Sir, my question is on Specialty Polymer. What has been the turnover in MB03?

Arvind Singhania: MB03, we are doing at about 100 tonnes per month.

Pradeep K Rustagi: We have done 890 tonnes in the 9 months period with the sales value of about Rs.36 to Rs.40 crore.

Rajesh Agarwal: Rs.36 to Rs.40 crore for the 9 months?

Pradeep K Rustagi: For 9 months over a volume of 890.

Rajesh Agarwal: And this quarter sir?

Pradeep K Rustagi: In this quarter, we have done 260 tonnes, December quarter.

Rajesh Agarwal: And the second question is now the film business is picking, so why we need to do the CAPEX? Can we wait for the Specialty.

Arvind Singhania: No final decision has yet been taken on the capacity expansion for film.

Rajesh Agarwal: And sir which are the other companies which make silky matte and the barrier films?

Arvind Singhania: I do not have the names right now.

Moderator: Thank you. The next question is from the line of Dnyanada Vaidya from Nirmal Bang. Please go ahead.

Dnyanada Vaidya : Sir, I had just one question. Could you help me with the margins in the BOPET film?

Arvind Singhania: We can give you the value additions that we have been achieving for the last few quarters.

Pradeep K Rustagi: In the value addition defined as selling price minus the raw material cost for June quarter, we are talking of 12-micron plain corona film. Rs. 51 in June 19 quarter. September 19, it was Rs. 40, that has improved to Rs. 46 in December and currently, it is in that range only, Rs. 45 to Rs. 46.

Dnyanada Vaidya : And with these two lines we set up and fully functional, sir do you see any pressure on these margins?

Arvind Singhania: Well, they have already started up right now. We seem to be holding on. And we do not see any reason for any major upheaval. There may be some short term, but I do not see any major upheaval because demand growth has been strong.

Dnyanada Vaidya : So Rs.46 should be like the average margin that you will earn on BOPET film, approximately?

Arvind Singhania: It is very difficult to put a finger on exact number but ballpark yes.

Moderator: We take the next question from the line of Ravi Nagda, Individual Investor.

Ravi Nagda: Sir, I want to know about the first 9 months free cash flow of the company sir?

Pradeep K Rustagi: So we made a PAT of about Rs.52 crore and if we add depreciation and the MAT adjustment etc., there was a free cash flow of about Rs.55 crore generated in the 9 months.

Ravi Nagda: And sir what about the product MB06 sir? When we expect a substantial increase in selling MB06? Where it is positioned now sir?

Arvind Singhania: Well, it is undergoing the final stages of qualification and we expect to start sales of this product in early FY21.

Ravi Nagda: And sir what it is used in?

Arvind Singhania: It is used for manufacture of fiber both for carpets as well as for apparel use and it is a Cationic Dyeable Master Batch. It imparts Cationic dyeability to the yarn.

Ravi Nagda: And it is a patented product no?

Arvind Singhania: Yes.

Moderator: We take the next question from the line of Saket Kapoor from Kapoor & Company.

Saket Kapoor: Sir, as you told the cash flow has been Rs.55 crore. So how has been the utilization sir?

Pradeep K Rustagi: So this all is parked in the cash credit accounts and there is a massive reduction in the utilization of our working capital accounts with the banks.

Saket Kapoor: Sir, now I come to the raw material basket. If you could give me the breakup how have been the raw material price trends for both as a mix also and separately for both PTA and MEG?

Pradeep K Rustagi: So the PTA in June quarter was Rs. 63 which is now currently at about Rs. 47. So Rs.63 it is reduced to Rs.56, then to Rs.51 in December quarter and currently Rs. 47. MEG in June quarter was Rs. 44 which is now at about Rs. 41. So if you look at the PTA and MEG cost per kg of chips, June quarter we were Rs. 69, currently Rs. 55.

Arvind Singhania: There has been a drastic reduction last week in the prices of raw material because of the China coronavirus issue. So there was a sharp reduction last week. We do not know how long this will last so.

Saket Kapoor: But currently MEG is Rs.41 versus Rs.44, that is what you said?

Pradeep K Rustagi: Rs.41- Rs.42 range.

Saket Kapoor: It is prevailing now after the blip that came due to coronavirus?

Pradeep K Rustagi: Yes.

Saket Kapoor: And if you take the peer comparison, in the Specialty Polymer, who are you peer competitor sir if we want to do a comparison, where should we look into?

Pradeep K Rustagi: You can only compare us previous quarter with current quarter, that is the only comparison you can do.

Arvind Singhania: Because we have done a lot of innovative work that these products have been developed in-house. So there is no competition to products that we are selling.

Saket Kapoor: But your customers who are buying from you must be sourcing it, you are only having a very small quantity and you are in the initial stages. So there must be some other people also who will be supplying to the customer. On a global scale also, where should we look for your competitors?

Arvind Singhania: There is no competition to MB03 for example. It is a patented product.

Saket Kapoor: And sir if I come to the employee cost part sir, we have seen the employee cost rising. How will you explain this sir from Rs.10.88 crore to Rs.14.41?

Pradeep K Rustagi: From Rs. 32.83 Crores to 37.89 Crores. 15% increase 9 months current period to 9 months previous year comparison

Saket Kapoor: Yes Sir. Give the reason Sir.

Arvind Singhania: So it is partly because of salary increases and partly because of commission to Director.

Saket Kapoor: At what rate are the Directors being remunerated sir? What percentage of profit?

Arvind Singhania: Well, we are allowed up to 10%.

Saket Kapoor: How much are you taking sir?

Arvind Singhania: Last year, we took 10%. 10% is the overall managerial remuneration. It includes fixed salary also.

Pradeep K Rustagi: And it is managerial remuneration to Executive Directors.

Saket Kapoor: I just wanted that figure, how much are the promoters and CMD getting in terms of remuneration sir, in terms of percentage out of the profits suppose the profit grows more as it should be, then how are you also going to get benefit of it? In percentage terms, I wanted to understand.

Pradeep K Rustagi: So suppose, in the 9 months we have as managerial remuneration payable to the Executive Directors, a provision of Rs.9 crore is there in the first 9 months. That includes both the Executive Directors.

Saket Kapoor: Rs. 9 crore

Pradeep K Rustagi: Yes.

Pradeep K Rustagi: Salary and the commission part. It is clubbed as managerial remuneration.

Saket Kapoor: Sir, you were looking for some selling of some noncore asset also, I think some office building and all. Have we moved ahead in it or is it a sluggish real estate market?

Arvind Singhania: We have not been successful in that real estate market especially in the NCR region is very bad.

Saket Kapoor: Sir, what was the large valuation you did for that? You will take the discount going forward.

Pradeep K Rustagi: Rs.30- 35 crore.

Saket Kapoor: And sir you told that even in Engineering Plastics, you would be interested in putting it on blocks. So have we got any interested parties for it or we are considering to put it on a block. Is it demand driven or supply driven judgment we are going to take?

Arvind Singhania: If we get an attractive offer, we will certainly look at it favorably.

Saket Kapoor: Right sir. And that would give you somewhat around Rs.70- Rs.75 crore that is what the figure you, you will be debt free immediately, that is what...

Arvind Singhania: No, it should be much higher.

Saket Kapoor: Much higher than that. Sir, many thanks to you and the investor team also sir doing a commendable job and giving the presentation. We would be waiting for the qualified dividend distribution policy in the coming results and as per our understanding, these numbers are qualitative numbers and should be on a sustainable basis we should be delivering these types of number going forward also. My understanding is correct sir?

Arvind Singhania: Absolutely correct. We are very hopeful that we will continue to deliver performance and our intention is to reward our shareholder and we will come out with a dividend distribution policy at the same time when we finalize our annual accounts in that board meeting itself. And it will be always our intention to reward the shareholders who have been with us for all this while handsomely.

Moderator: We take the next question from the line of Pravin Yadav, Individual Investor

Pravin Yadav: Sir, actually a few quarters back, you had mentioned that you are going to open a research lab. So any updates on that sir?

Arvind Singhania: No update on that as yet. We have deferred the expenditure on that for the time being.

Pradeep K Rustagi: But we have R&D capability and capacity in our existing plant in Khatima.

Moderator: We take the next question from the line of Agastya Dave from CAO Capital.

Agastya Dave: Sir, what about your debt repayment schedule? You had given what was the schedule in the past, but going forward what is Schedule

Arvind Singhania: The total repayable debt is only about Rs.72 crore as of now. I think we will be repayment of about Rs.25 crore in FY21.

Pradeep K Rustagi: FY21 would be Rs.25 crore and then it will marginally increase to Rs.30 crore in next year and then Rs.35 crore and then there is hardly any amount left after that.

Agastya Dave: And when we do this CAPEX of Rs.110 crore, what would be the debt equity for that and hence including a working capital, what would be the peak gross debt level that you will see?

Arvind Singhania: See, the gross debt as of today is about Rs.170 crore. And in spite of this capacity expansion and this Rs.110 crore, year-on-year you will see a reduction.

Pradeep K Rustagi: Though we will raise fresh loan, but there would be the money earned, it will retain in the business, so there will be lower utilization of working capital limits.

Agastya Dave: So even when the new capacity is fully operational, we would not cross Rs.200 crore, is that a good assumption?

Arvind Singhania: Yes, it is a good assumption. Our intention is to continue to reduce the debt, not increase it.

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 very much for joining the Earnings Call for our company for nine months ended December 2019 and we look forward to seeing and hearing from you in the next call. Thank you.