Ester Industries Limited
Q3 and 9 M FY '23 Earnings Conference Call
February 16, 2023

Moderator: Ladies and gentlemen, good day and welcome to Q3 and Nine M FY '23 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, Vivian. Good day everyone and a warm welcome to Ester Industries Q3 and 9M FY '23 analyst and investor conference call. We have with us today Mr. Pradeep Kumar Rustagi, the Executive Director, Corporate Affairs, and Mr. Girish Behal, the Business Head.

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 discussions may be forward-looking in nature and a note to this effect was sent to you in the invite earlier. We trust you have had a chance to go through the documents on financial performance.

I would now like to invite Mr. Pradeep Rustagi, to make his opening remarks. Over to you, Pradeep.

Pradeep Rustagi: Thank you, Gavin, and thank you everyone for joining us today. I will begin the call with brief overview of our businesses followed by walk through of financial performance for the quarter and nine months under review.

While our results for the quarter have been subdued, our performance during nine months though has been positive despite the external challenges. Furthermore, we are happy to report that Ester Filmtech Limited, Wholly Owned Subsidiary of the Company, recently started commercial operations at its new Film Plant in Telangana. We expect the same to start contributing to our growth journey in the coming years.

Commenting on to our performance - Film business as we have been stating as well in our earlier calls is facing near term headwinds. Significant new capacities entering the market has caused excess supply and thereby compression in sales realization & margins.

With regards to Specialty Polymer business, I am sure that you all must be aware of the recessionary concerns grappling the Global / US economy at present. US being the primary market for our Specialty Polymer products, prevalent economic situation in that region has affected our business.

Let me elaborate on the performance of each segment. Starting with Specialty Polymers business. Like we have highlighted in our previous call, the overall growth for the business is largely dependent on the health of the global & US economy, given that it is primarily an export-oriented business. Amongst the major markets, US is a dominant market for our Specialty Polymer business and hence prevalent economic concerns in that region has adversely affected business performance during the quarter. Q3FY23 performance is reflective of those economic challenges – we have seen lower offtake of our products during the quarter. Lower share of high margin products during the quarter resulted in margin and profitability compression.

The actual sales during Q3FY23 has dropped to 405 MT with revenue of Rs. 16 crores due to economic downturn in US as compared to 1248 MT of sales with revenue of Rs. 72 crores during Q2FY23 and actual sales 953 MT with revenue of Rs. 44 crores during Q3FY22. We are hopeful of increased exports and again reaching volume of sales that we achieved in H1FY23 as the economic situation in US improves.

On a nine months basis though, we have reported steady performance which is reflective of the inherent strength of the business. Specialty Polymer as we have been highlighting in the past is an innovative and largely patent protected business as a result of which the threat emanating from any competitor doesn't arise. Furthermore, we have started to see signs of recovery in the business and are hopeful of increased volumes over next couple of quarters. We have full faith and confidence in its ability to bounce back once the external environment starts to improve. Our product pipeline as well remains strong which further reassures us of the long-term growth prospects of the business.

Moving on to Films business, Q3 performance as we have been indicating is reflective of the current challenges. Intense & heightened competition coupled with elevated conversion costs has dented the profitability for the quarter. However, similar to Specialty Polymer business, our nine months performance though has remained positive. Addition of significant new capacities in India has resulted in an increase in overall supply, which in turn has resulted in pressure on margins. The slowdown in the US & Europe and demand supply imbalance in India can be expected to see the industry continuing to face challenges during next couple of quarters.

In addition to the external challenges, there was a breakdown in Continuous Polymerization (CP) plant due to which Company suffered loss of production (and therefore sales) in CP plant and Film Plant # 3 for about a month as Film Plant # 3 runs only on direct melt from CP plant. This has also impacted our performance during the quarter. Company has already lodged a claim with insurance company for damage as well as loss of profit. The insurance claim will be accounted for in the books of accounts as and when it is accepted and approved by the insurance company.

While the outlook remains challenging for next couple of quarters, we expect the situation to normalize gradually and expect the realizations / margins to improve both on account of enhanced volumes of Value Added & Specialty products within Film segment as well as growth in demand that continues to be robust. Our continuous efforts and focus coupled with commissioning of new machines in near future will enable us to enhance volume of Value Added & Specialty products within Film segment. We also on a continuous basis, review various elements of cost and are working with enhanced focus to explore possibilities of reduction in the same.

Furthermore, as I have highlighted at the beginning of my remarks, I am happy to announce that we have started commercial operations from our new unit in Telangana. Spread over 50 acres, the 48,000 MTPA BOPET Film and 10,000 MTPA Metallized BOPET Film unit has been set up at an approximate cost of Rs. 665 crores (including margin money for working capital and accumulation of Input Tax Credit of GST paid on machines etc). The plant is expected to generate revenues of approximately Rs.600 crore upon achieving optimal utilization. We also plan to export part of the production from this unit, ranging 25%-30% of the output.

I would just like to reiterate that while outlook for the businesses over next couple of quarters may remain challenging, we remain confident in the ability & prospects of the Company to tide over any hurdle and continue on its journey towards achieving its stated objectives.

I will now quickly walk you through our financial performance for the quarter and nine months ended December 31, 2022 post which we can begin the Q&A session.

Starting with the topline; revenues from continued operations stood at Rs.197 crore as against Rs.288 crore reported during Q3 FY22, lower by 32%. As indicated earlier, while Film business' performance was impacted by intense competition and breakdown in the Film Plant #3 for about a month, recessionary concerns in US affected Specialty Polymer performance. Revenues from Specialty Polymers for the quarter stood at Rs. 16 crores as against Rs. 44 crores generated in Q3FY22, while revenues from the film business stood at Rs. 181 crores as against Rs. 244 crores garnered during Q3 FY22. On nine months basis revenues were broadly steady and stood at Rs.825 crores as against Rs.807 crores, generated during 9M FY22, higher by 2%. Revenues from Specialty Polymers on a nine months basis stood at Rs. 146 crores as against Rs. 125 crores, while revenues from Film business stood at Rs. 679 crores against 682 crores registered during 9M FY22.

Contribution to the revenue from operations from divested / discontinued business of Engineering Revenues during the nine months ended December 2022 was Rs. 136 crores.

EBITDA for the quarter from continued operations stood at Rs.6 crore as against Rs.47 crore generated during Q3 FY22. On a year to date basis it stood at Rs. 98 crores as against Rs.129 crores generated during 9M FY22. Lower profitability was largely owing to compression in margins in Film business, breakdown in Film Plant #3 for about a month, lower volume in Specialty Polymers and higher conversion costs

PAT from continuing operations for the quarter stood at negative of Rs. 9 crores and during nine months ended December 22, it stood at Rs. 33 crores

Upward revision in policy rates by RBI continuously since the month of April 22 has caused increase in rate of interest on our borrowings. As a consequence, finance expenses have increased from Rs. 16 crores during nine months ended Dec 21 to Rs. 22 crores during nine months ended Dec 22.

As of December 31, 2022, our outstanding interest-bearing term debt (net of free cash & liquid investments of about Rs. 200 crores) stood at Rs.124.39 crore which is 0.80 times our annualized EBITDA for the current financial year. I would like to highlight that interest-bearing debt net of free cash & liquid investments is just 0.80x our annualized EBITDA. Strong balance sheet and low leveraging coupled with cash reserve & liquidity ensures that debt is serviced as per schedule without any issue / problem.

We remain committed towards maintaining a strong balance sheet that is supportive of our growth initiatives.

That brings me to the end of my opening remarks. We would now like to throw open the floor for questions.

Moderator: The first question is from the line of Pratik Shroff from Dolat Capital.

Pratik Shroff: Sir, just had a couple of quick questions. At what capacity we are presently operating at? And what is the visibility in the BOPET space and where do you see new capacities coming up?

Girish Behal: See, as of now, we are operating at full capacity at our Uttarakhand plant. And as mentioned by Mr. Rustagi, we have commissioned new BOPET film unit in Telangana in this quarter, in January to March quarter. And that particular plant is currently is operating at 70% operating rate.

Pratik Shroff: Okay. And sir, what is the visibility in the BOPET space?

Girish Behal: See, I think Mr. Rustagi briefly touched about it, the demand continues to be robust. There are external factors which is recessionary impact, and as well as the demand-supply imbalance, which is expected to disturb short to medium term, and keep pressure on margins.

Pratik Shroff: Okay. Sir, so this elongating your this thing on that, thesis on that. There is a slowdown seen in the US and it's expected to continue in the current year. So what gives us the confidence of SP doing better in the near term or in the near or mid-term? And what product lines have we seen demand for?

Pradeep Rustagi: So in the first six months we did a revenue of about Rs. 132 crore, majority of that has come from the exports to US So the December quarter was badly affected because there was a stock in the pipeline also. We are seeing some revival in the March quarter. March quarter is going to be better than December in terms of volume and value of sales in Specialty Polymer. And with that and the forecast that we have received from our customers in US, we believe in the next let's say couple of quarters we should be doing reasonably well in the Specialty Polymer. And as the economic situation in US improves, we should be back to the volumes that we did in H1 FY ’23.

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

Saket Kapoor: Sir, you mentioned that we did capacity utilization levels of 70% for our film segment for Q3.

Pradeep Rustagi: No, Girish mentioned that our Telangana plant which got commissioned on 20th January is now running at about 70%.

Saket Kapoor: Okay. Sorry, sir. Sir, then what was our utilization level for Q3 for our Khatima Plant?

Pradeep Rustagi: We were running at almost full capacity, but for the film plant 3, which was down for about a month because of the breakdown. Otherwise, we were running at almost full capacity.

Saket Kapoor: So sir in tonnage terms, what was the percentage loss?

Pradeep Rustagi: Because we lost 3,000 tons of production from the film plant 3 which is the largest plant in Khatima. In a month we lost about 3,000 tons, so that’s the reason for the low volume.

Saket Kapoor: Okay. So what does that translate into the utilization percentage sir, 3,000 per month?

Pradeep Rustagi: Our quarterly capacity is close to 15,000, so that then amounts to almost 20% for the quarter capacity.

Saket Kapoor: Okay. So on a likewise basis, we were down in volume by 20%. And now coming to the conversion part, how have the margins behaved, if you could give some understanding.

Girish Behal: Just a minute. So in the December quarter plain films, we got about Rs. 96, Rs. 97 a kg 12micron Corona. And the metalized was selling at about Rs. 112 to Rs. 114 a kg in December.

Saket Kapoor: Okay. And the comparative number for the September quarter and what are the current prices?

Pradeep Rustagi: In the September quarter it was Rs. 112 for 12micron Corona, and metalized was at about Rs. 130 AND Rs. 132. So we are seeing a drop of almost about Rs. 15 to Rs. 16 on an average basis, as compared to September.

Saket Kapoor: Right, sir. And how has been the price trend sir for the month of Jan and if some color also on Feb?

Pradeep Rustagi: The December quarter was the worst. Things are marginally better. I would say, January, February, we are at Rs. 97 to Rs. 100 a kg.

Saket Kapoor: For 12 micron?

Pradeep Rustagi: For 12 micron Corona.

Saket Kapoor: And…

Pradeep Rustagi: Metalized at about Rs. 114 to Rs. 115.

Saket Kapoor: Okay. Okay, sir. And, sir, for this quarter, we will be operating the shutdown which happened that has recovered and we will be producing at optimum level.? What is the update of the same?

Pradeep Rustagi: Yes, yes, we should be operating at optimum level in the existing plant, and the Telangana plant will gradually increase the capacity utilization. Because that's the way different plants, many new plants, film plants will operate. It takes time to build up the capacity utilization.

Saket Kapoor: Sir, what are the factors that led to the drop in these realization levels? How much is because of the raw material cost going down, if you could give some color and also then on the demand side. And yes, firstly the colour on the factors that led to lower realization.

Pradeep Rustagi: So basically if you see the way, demand there is no issue with the demand, demand continues to grow. It is the compression in margin which has come because of the competition. So Girish can explain you in detail, the domestic market scenario.

Girish Behal: See, as you might be aware that there are many capacities which have started in last 12 months or so, which has resulted in to temporary demand supply imbalance, which has impacted or put pressure on the margin level, we are operating at.

Saket Kapoor: So can you give some more color on the domestic capacity addition and also on the global part, sir, just to gauge an understanding what have been the addition in percentage terms.

Girish Behal: Yes. I think in total about eight lines have started in last 12 months, eight to nine lines have started.

so which let's say try to compare to the total capacity level that could be nearly about 50% of the existing capacity.

Saket Kapoor: 50%?

Girish Behal: Yes, yes.

Saket Kapoor: Okay. But all of those lines have not still ramped up to the optimum level, every lines would be ramping up in a phased manner. So the nameplate capacity

Girish Behal: The line would be ramping up -- would be in a phase manner. But I think whatever our best estimates are that all nines put together must be at least operating at 75% operating rate.

Saket Kapoor: Okay. So there will be pressure going ahead also because, they need to find buyers and the offtake has not risen in commensurate to the capacity additions.

Girish Behal: I think the demand is very strong, and there is additional capacity, that additional capacity is serving demand, but still there is a demand-supply imbalance, which is the main reason for the pressure on pricing and margin.

Pradeep Rustagi: Scenario globally improved, we should be able to park more volume outside of India, the all the Indian manufactures. So that should reduce some pressure on the domestic prices also.

Saket Kapoor: So sir, this is the addition, domestically. How have the global space faired in this period over the last 12 months?

Girish Behal: Yes I think. Globally, yes, there are certain pressure on what was happening earlier. But whatever the countries or the market is getting served from India earlier those market continue the momentum. And is reasonable exports happening from India, and there are strong chances of it to grow in coming future.

Saket Kapoor: Okay. So globally, just to conclude on capacity utilization, so globally the capacity that has risen is totally is on from India only and not the other geographies?

Girish Behal: No. I think the capacity expansion has happened in many countries, including India.

Saket Kapoor: Okay, sir.

Girish Behal: In India it is one of the largest.

Saket Kapoor: Sir, in your presentation it was mentioned that mitigation strategy is under implementation, so please allude to the factors what steps are you taking to first of all contain these margins? And also, since the realizations have dipped, how have the raw-material the market is behaving? So our margins per kg, how has the margin per kg being affected for the last quarter, and what should be the likelihood for the current quarter?

Pradeep Rustagi: So, first of all, I'll come to the raw material cost. The raw-material cost will be in let's say in December quarter or January, February has been more or less stable. In December, it was INR 79 a kg per kg of film PTA and MEG put together. In February, currently, it is at about INR 79 a kg. So in between January, there was some drop, but it has again regained. So we are in the ballpark of INR 79 to INR 80 in terms of raw material per kg of film, as well as the selling price we have already discussed, what the selling prices for the film are.

Girish Behal: As Mr. Rustagi mentioned earlier, we have a very strong pipeline on Specialty Polymers, and Specialty Polymer has already seen signs of early revival. We are working on a range of specialty films and planning to increase it at a faster pace. There are many new products which are currently under various stages of let's say commercial volumes. And also apart from these two, we are also looking at other avenues to increase profitability, including cost rationalization and all other possible areas.

Saket Kapoor: Sir, for value-added films, out of the total sales, what percentage attributed to value-added, and how is this number going to shape up going ahead?

Pradeep Rustagi: So in December quarter, we did about 20% of the total volume that we did, about 23% came from the value-added and specialty portfolio. Whereas in terms of value, it contributed 35%. So 25%, 23% of value-added products portfolio contributed 35% in value terms. And going forward our target is to take it up to 30% to 35%.

Saket Kapoor: In terms of volume?

Pradeep Rustagi: From existing Khatima capacity, I'm not including the Telangana capacity in it.

Saket Kapoor: Sir, when we look at this value-added film part, is it the same capacity where we are doing some after work that goes into value-added or value-added lines are separate than what the general film lines are?

Girish Behal: It is both. Some products are produced on the larger assets and some products are required for the steps to be further converting into a final product. So it's a mix of both.

Pradeep Rustagi: So there are new machine there are extra machines also from the -- apart from the main production line, there are other machines also, which are used to make value-added and recycled film.

Saket Kapoor: Correct, sir. Sir, was there any impact of foreign exchange losses also for us in this quarter?

Pradeep Rustagi: on the exchange fluctuation so far we have had positive impact because we are in -- Ester Industries is now a net exporter of exporter and therefore, we have more receivables in foreign currency than the payables. And the depreciation of rupee against dollar is resulted in to a gain for the company. So we had exchange fluctuation gain in December quarter. For example I mean for that matter in the current financial year, so far, we have made a deal of about Rs. 5 crore on the exchange fluctuation in Ester Industries.

Moderator: The next question is from the line of Gaurav Lohiya from Bowhead India.

Gaurav Lohiya: Sir, can you please share the June quarter utilization as well? You shared the December and September.

Pradeep Rustagi: June 22 quarter we had realization of 12 micron in the range of Rs. 145 rupees. But at that time raw material cost was significantly high. It was about Rs. 95 a kg.

Gaurav Lohiya: Rs. 95. Currently, it's Rs. 80, right?

Pradeep Rustagi: currently, it is about Rs. 78- Rs. 79.

Gaurav Lohiya: And so Rs. 145 was for 12 micron and metalized would be about Rs. 160 odd?

Pradeep Rustagi: Rs. 160.

Gaurav Lohiya: Understood. And currently metalized is about?,

Pradeep Rustagi: Rs. 115,- Rs.117.

Gaurav Lohiya: Okay. INR 117. And do you considering the situation so that the supply pressure is there in the market, do you think that these prices can drop to Rs. 90 odd levels or, that's not possible, basis on the EBITDA per kg that we are making or all the industry players that are making in the market, it's difficult to slide to price correction from here onwards.

Girish Behal: We don't think so there is any scope for prices to drop further because the prices are already at lowest level.

Gaurav Lohiya: Is there any significant difference between export prices and domestic prices?

Girish Behal: Yes, export prices are better.

Gaurav Lohiya: They are better. Okay. And sir in this specialty business, how much visibility generally do we have? When these clients when they share the order with you, is it easier for them to retract it, if they see the demand is not going to be good? Or generally they go ahead and take the order from you?

Girish Behal: Yes, I think it's not about retracting the orders. In case Specialty polymers perhaps spoken earlier that many of the products what we sell is on the specialty space are patent protected, so there is no competition. So the volume has dropped only because of the demand at our customer end has seen a drop, which was in the last quarter, and now we are already seeing signs of recovery.

Gaurav Lohiya: So, generally how much visibility do we have, is it a one month or two month visibility? There must be two months or three months kind of…

Girish Behal: So I think usually we have forecast available and the customer keep on revising the forecast, as per their demand consumption schedule.

Gaurav Lohiya: Understood, understood, sir. I think helpful. Thanks a lot.

Pradeep Rustagi: But we should be doing much better in the March quarter in terms of Specialty Polymer, both volume and value, as compared to December quarter.

Moderator: The next question is from the line of Rahil Shah, an individual investor.

Rahil Shah: Sir, just wanted your broader view on the current industry scenario, when is it expected to improve, in how many quarters, you will say, when will the industry and even the company for that matter will produce normalized performance. So when is the exact turnaround expected in a strong opinion?

Pradeep Rustagi: So in film business, as we have stated in our opening remarks, we should be seeing a recovery, the recovery will be gradual, number one. Number two, it should start coming in after one to two quarters, after a couple of quarters. There would be definitely because the December quarter lot of things went negative at the same time. So we had a breakdown, the slowdown in US and many other things. So we should be seeing revival starting from March quarter, and through a gradual process, we should be back to some sort of a positivity after one to two quarters.

Rahil Shah: Positivity in the numbers on top line and margins, you're saying?

Pradeep Rustagi: Yes.

Rahil Shah: So is this like, because the company is expecting good demand or is it, are you expecting overall industry scenario to change and become positive?

Pradeep Rustagi: The demand will definitely increase. We will find new avenues as the global economic situation is stabilizing, there would be more demand from the outside of India and within India also. We believe, the growth in the market and many other things with many other initiatives that we are taking one, increasing the proportion of that volume cost, all that should help us in reducing, in let's say turning to positive performance in one to two quarters.

Rahil Shah: Are you in any position to give any guidance?

Pradeep Rustagi: Very difficult because there is dynamic and volatile situation as of now. So we know the efforts that we are putting in terms of enhancing volumes of sales and cost reduction and improving efficiencies, etc, all that should result into some improvement. And this is the guidance that at this point in time, we can share this much only.

Moderator: The next question is from the line of G. Surendra, an Individual Investor.

G. Surendra: Hats off to Mr. Rustagi you are carrying so much responsibility in finance and secretarial department. You are the pillar of our Company and I appreciate your efforts, as you are a strong pillar of this company.

Pradeep Rustagi: Thank you, sir. Thank you very much.

G. Surendra: Sir, one more, my question is on that, there was a breakdown and it was reported in this current quarter by auditor that the event was happened in September, I think, correct?

Pradeep Rustagi: Yes, 28th September.

G. Surendra: Correct. So why it was not reported in Q2?

Pradeep Rustagi: So what happened, each company has a certain materiality threshold, and the materiality threshold is decided by the Board of Directors generally, anything which has an impact of more than 10% of the net worth is considered material. So in terms of both bottom line and the top line, the impact was much less than 10%, because our net worth is close to INR 700 crore, INR 750 crore, and the 10% of that would be about INR 70 crore, whereas the loss of sales was only INR 30 crore, and the impact on bottom line was only INR 3 crore, INR 3.5 crore.

So it was not considered a material event. And when the breakdown happened, we were not sure how many days will it take, but it was something which was very unexpected. So that's the reason it was not considered material enough to be informed to the exchange.

G. Surendra: Sir, but, then now why auditor has -- I mean to say, why auditor has put the -- I mean see it's not the just the material event, when Board of Directors…

Pradeep Rustagi: It is the in compliance of the accounting, the standard, the listing requirement requires, it is not by the company, because we had to the reader of the results to the investors, we had to inform the drop in sales value. One of the reasons was the breakdown in the plant and machinery for about a month in film plant 3, so that's the reason we had put this note in the results.

G. Surendra: But also that you have not informed in concall Q2?

Pradeep Rustagi: We may have missed it. We take note of your observation, and we would be more careful.

G. Surendra: I mean to say that some information was missing in this part. And we investor misunderstood.

Pradeep Rustagi: Pardon?

G. Surendra: Because of not this information was not informed in concall, as well as wherever in report, also not informed to me at Stock Exchange. So we investor are misunderstood. We thought that company will perform better. Those in one or two quarters, the situation of the polymer, this film line situation you have guided us, let's say there is a competition and prices are softening. But this information really hurt to the company more.

Pradeep Rustagi: Now we cannot say anything about this sir.

G. Surendra: I mean to say, there you are saying that there is presently new capacities are running around 25% something like that.

Pradeep Rustagi: No, we did not say 25%.

G. Surendra: No, the new capacities, I'm talking about 8 to 10 plants that have recently operationalized in '22, '23. Okay. New plant, 8 to 10 new plants of film plants, I'm talking about film plants, 8 to 10 film plants are operationalized in '22, FY '22, '23. And they are operating at 25% roughly. Correct?

Girish Behal: No. I think what I mentioned was that eight, nine lines have started in last 12 months. And we don't have I mean we can only make a guess that collectively at what operating rate all these plants collectively are performing. And our internal estimate is that, that number could be anywhere between 70% to 75%.

G. Surendra: So just I mean to say that in the next two to three quarters, if they start performing at 100%, will it be a situation like glut in the market? And also there, presently in January, we are benefited by one fire in the plant of Jindal, right? So it might be because of this situation should have been improved in

January to March. But in future all the plants like this, say operating 100% there will be glut in the market.

Girish Behal: Yes, I'll try to answer your question in a different way. The capacities have added over the last 12 months, those capacities are operating at let's say, as far our internal estimate 70% to 75%. There could be a very small impact of Jindal, the issue at Jindal one of our competitors' plant. But eight or nine lines operating at 70% to 75% of run rate it's a very, very significant number and that talks about that, what kind of demand growth our end consumers are having. Demand continues to be very robust.

Pradeep Rustagi: We are growing at about 12% to 13% per annum domestically, and globally also 6% to 6.5%. On export 13% on a very large base is a very good healthy number.

G. Surendra: Sir in Q4, can we estimate we will at least breakeven level?

Pradeep Rustagi: Sir, we'll definitely see improvement in the top line. There would definitely be some improvement in the bottom line, whether we would be able to we would strive to achieve net breakeven at least. But this is something which is market dynamics have to play very important role. And therefore, it is difficult to give at this point in time in number. But we are working in the direction of achieving the net breakeven. We are working on that.

G. Surendra: Whether we have put on hold our this expansion plan of the Specialty Polymer, or is it going on?

Pradeep Rustagi: That expansion plan was for debottlenecking of certain capacities, where we are going bit slow on that, because of the situation in US, etc.

Moderator: The next question is from the line of K. C. Poovanna, an individual investor.

K. C. Poovanna: Regarding this Telangana investment, there appears to be a cost overrun, as well as a time overrun to the extent of about 25%. Originally, your investment estimation was about Rs. 500 crore for the project. And the production was to commence sometime in September of '22, October of '22. Now, then the project cost was enhanced to Rs. 576 crore, now we would say that ended at plus Rs. 665 crore, and you are gone into production only in January this year. Does it affect the viability of the project, viability of the investment?

Pradeep Rustagi: The original project cost approved by the Board of Directors was Rs. 586 crore, when the project was finally location-specific was conceived, it was Rs. 586 crore. We started the project in October of '20, since then there has been massive increase in the building and construction cost. So this was one reason.

Secondly, in the project cost we had taken margin money for working capital as part of the project cost because of the increase in the crude oil prices, etcetera, the margin money for working capital, which is not an investment in the fixed asset, it is more in the current asset, that has increased from Rs. 15 crore to Rs. 30 crore.

Secondly, the GST component on the machines that we have purchase, which is now appearing as a balance in the current asset side as input tax credit of GST accumulated that is about Rs. 35 crore. So Rs. 586 crore plus Rs. 50 crore, that makes it Rs. 636 and balance Rs. 29 crore is on account of the increase in the construction cost, time overrun cost, resulting into higher pre-operative expenses. So, and the reason for the time overrun was that we did not get power connection from the state Government. We were ready to commence commercial production in the month of October, but there was delay in getting the power connection from the state Government.

So we have kept the cost of the project under control. So Rs. 35 crore plus Rs. 15 crore is appearing as a current asset in the balance sheet, it is not part of the fixed assets. So Rs. 655 crore, minus Rs. 50 crore, Rs. 650 crore and Rs. 586 crore, the balance Rs. 30 odd crore is because of the time overrun and construction cost.

K. C. Poovanna: So you had not envisaged this escalation in construction cost, is that when you…

Pradeep Rustagi: We could not have. We didn't know what would be the construction cost, we conceived the project in the quarter ended June '20. Got the land allotted to us in the month of October '20, we started construction and because of post-COVID there was huge increase in the construction cost. Cement and steel prices had gone through the roof. And that is the main reason for the increase in the project cost.

K. C. Poovanna: What was the reason for the power connection delay?

Girish Behal: See the power connection delay because the industrial area, where we have our plant, the new sub station was being built by the Government which got delayed.

K. C. Poovanna: After commissioning the plant, is the plant performing to your expectation in terms of efficiency?,

Girish Behal: Yes. I think, our plant is performing as per our expectation now. So we have started selling commercial sales to our customers. The product is well accepted.

K. C. Poovanna: Product quality, and plant efficiency is up to your expectations, right?

Girish Behal: Yes.

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

Pratap Jhagwani: Sir, I have three questions. Starting with first, in this quarter Q4 '23, the revenue from Telangana and your Dahej expansion, what you have done last year, what will be the total revenue contributed in top line approximately? That is the first question.

Pradeep Rustagi: So, Telangana the commercial production has started only in the month of January. So there is no contribution to the revenue from Telangana operations in the December quarter.

Pratap Jhagwani: In Q4, Q4 by March '23?

Pradeep Rustagi: In Q4, if we should be achieving close to, let's say a revenue of about Rs. 70 crore to Rs. 75 crore from Telangana operations in Q4.

Pratap Jhagwani: And from Dahej?

Pradeep Rustagi: Sir, Dahej plant was for Indian plastics, before it could commence production the business has already been sold to Radici Indian plastics business. So, that plant was under construction when the business was transferred from Ester to Radici. So it had not started commercial production till 15 September, when we sold the business to them.

Pratap Jhagwani: My second question is, once this insurance claim is approved and once it is available, when it will be available in top line?

Pradeep Rustagi: Sir, there are two aspects the insurance claim. One is the property damage, and the other is the loss of profit. So the property damage claim is always settled more conveniently and in a timely manner. The loss of profit takes time. We are expecting by end of March or early April to get the insurance claim settled for the property portion, which is close to Rs. 3 crore. For the loss of profit, we may take six months, it may get settled in the June quarter.

Pratap Jhagwani: Now my third question is that, your Q2 was the top line and bottom line seen significant increment due to the plastic sale business, which should have been taken apart. And due to that your quarterly performance and Y-o-Y performance is getting compared with that one-time benefit what you got. So, now. Q4 is also subdued, and you are seeing some Rs. 70 crore additional revenue from Telangana plant, and 75% is your total capacity from Khatima one. So that is I think, expected to be the good one.

But again the Q1 due to this insurance then will be again but jump on that. So when the investor like us can expect that there will be a steady growth, whether then they finally should have one-time adjustment and then the profit and then loss. So what is the plan for management to get this steadily growth to be done?

Pradeep Rustagi: From June quarter, we should have steady operations, both at Telangana and Ester because we commenced production in Telangana only on 20th January which takes time to stabilize the plant, and it takes time to gradually pick up the production and increase the capacity utilization. And we also are expecting revival in Specialty Polymer business over the next one to two quarters. From June quarter onward, we should be starting to reach the steady stage of bring it in terms of top line.

Pratap Jhagwani: And so that will significantly improve the bottom line also, correct?

Pradeep Rustagi: That is what we are striving to achieve sir.

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

Saket Kapoor: Sir, you mentioned that the volume lost because of the breakdown was 20% of the entire volume.

Pradeep Rustagi: 20% in volume terms, in value terms it was close to Rs. 30 crores. So my annual quarterly capacity is 15,000 tons of polyester film. We lost about 3,000 tons, which is 20%, 3,000 tons would translate to Rs 30 crore of top line.

Saket Kapoor: Rs 30 crore of top line for the month, the loss period?

Pradeep Rustagi: For the December quarter, had the breakdown was no there, our film lines film top line would have been higher by about Rs 30 crore.

Saket Kapoor: And what was the impact on the bottom line in that case, because of the…

Pradeep Rustagi: Going by the margins that were prevailing, I think the impact if we take an average about Rs 3.5 crore is the impact on the bottom line. And on top of that, we spent some certain amount on the restoration of the damaged asset, that has also been charged to revenue. And when we get the claim settled by the insurance company, it will come in the other income part. The impact of the breakdown and loss of profit, you can consider it in the ballpark of about Rs 5 crore to Rs 6 crore.

Saket Kapoor: No sir. Profit's part will get from insurance, but how much extra money we have spent on restoration?

Pradeep Rustagi: Sir, restoration, our quality is 100%, so we get, the deduction is only Rs. 50 lakhs. So on the restoration we lost only Rs. 50 lakhs.

Saket Kapoor: So for the next quarter, this Rs. 3.5 crore impact will not be there. It will be a normal quarter.

Pradeep Rustagi: If we get the claim settled in March, otherwise it will come in the June quarter.

Saket Kapoor: No, sir, my point is this volume loss and the loss in profit of Rs. 3.5 crore which happened because of the lower volume will not be there for the fourth quarter. We would be operating at the normal levels, and the margins will be similar.

Pradeep Rustagi: Yes Saket, your assessment is right.

Saket Kapoor: And, sir, if we take the blended margins per kg, taking into the commoditized, as well as the value-added films, if you could give us quarter wise, for the June quarter, what was the per kg margin, what was the average for September and how has December faired?

Pradeep Rustagi: June the blended margin, in domestic market was close to Rs. 60 and September it dropped to Rs. 35, in December, it is at about Rs. 25, and we expect this to improve going forward.

Saket Kapoor: So we will be in the midst of 25% to 35% for the March quarter?

Pradeep Rustagi: I would tend to agree with you.

Pratap Jhagwani: And for Telangana, sir, what will be our are we breakeven at 75% utilization levels or what should be the number?

Pradeep Rustagi: So, sir, there are two aspects to achieving breakeven. One is the capacity utilization, the second is the margin. At the current margin there 75%, the net breakeven would not be possible. But as we improve the capacity utilization, and as we expect the margins to also improve after one to two quarters we should be seeing net breakeven in Telangana plant as well.

Saket Kapoor: So sir, at Rs. 70 crore top line, what would be our EBITDA for Telangana plant?

Pradeep Rustagi: We should not focus too much on the first quarter, because first quarter is generally a stabilization quarter. From the steady stage of second quarter, we can look at some number. But at this point in time I would shy away from giving any number because the market is a bit volatile and dynamic in nature, and difficult to assign a number, but our endeavor would be to achieve net breakeven in both Ester Filmtech and Ester Industries as early as possible, if not in the first quarter at least in the second quarter, we should be achieving this.

Saket Kapoor: So what should be the additional depreciation from Telangana plant?

Pradeep Rustagi: Let's say Rs. 4.52 crore to Rs. 4.8 crore per quarter depreciation. The depreciation should be about Rs. 19 crore a year, and that I am breaking into the quarterly of about Rs. 4.75 crore to Rs. 4.8 crore.

Saket Kapoor: Sir, firstly, cost of funds, what is our cost of fund currently, with the working capital and the long-term borrowing?

Pradeep Rustagi: In Ester Industries, we don't have foreign currency debt. We have only rupee debt. So our blended working capital and term loan put together is about 9%, 2.5% has been the increase by the RBI. So our interest cost, one of the reason why the interest cost has gone up from Rs. 15 crore to Rs. 22 crore in the nine months period is because of the increase in the policy rates by Reserve Bank. In Telangana, our interest rate would be lower because we have a foreign country debt which should be at about 7.5% blended.

Saket Kapoor: So quarterly what should be the interest part for Telangana unit**?** And when is our rating due sir? Credit rating?

Pradeep Rustagi: Sir credit rating so we have got the credit rating done for Ester Industries the net new is in August of '24. And the Ester Filmtech is also renewed at the same time. Coming to the interest cost, our interest cost for the quarter should be about Rs. 7 crore.

Saket Kapoor: Rs. 7 crore per quarter. Yes, so Rs. 7 crore and Rs. 5 crore is the number. depreciation is Rs. 4.5 crore and Rs. 7 crore is the interest?

Pradeep Rustagi: Yes, sir.

Saket Kapoor: And sir last point is sir, one suggestion…

Pradeep Rustagi: Rs. 13 crore is the EBITDA required to achieve net breakeven.

Saket Kapoor: And then on the top line of Rs. 70 crore, this is not a…

Pradeep Rustagi: Rs. 70 crore is in the first quarter when we are now operating at 70%, when we have almost completed one month. So gradually we will increase production and initially, there is a certain amount of B grade production also when the any plant. It is not like a car on the road it is a plant, it takes time to come to the optimum level. So my request would be to let go the first quarter of Telangana operation, that should be considered more of a trial period rather than the commercial sort of operation. Because it takes time to stabilize, it takes time to achieve optimum efficiency.

Saket Kapoor: How much would be the value-added?

Pradeep Rustagi: We don't have capacity to do more value-added there. We have metalized thing and we have certain in line coated products. So the value-added products in Telangana would be less as compared to -- much less as compared to Khatima.

Saket Kapoor: So film would be made of Rs. 9,700 only there.

Pradeep Rustagi: Yes.

Saket Kapoor: And two suggestions, sir, just to conclude. Firstly sir, Singhania sir could not attend today's call so next time he hope -- from him to attend the call, sir. And secondly, sir, this informing to investors which was very well pointed out by one of the investors, we should take sir, extra caution in coming up, whatever is material or immaterial part, whether 10% or not the -- we should come up with a clear thought that this breakdown has happened and the assessment will come thereafter. So, God forbid that such kind of…

Pradeep Rustagi: We will be more careful.

Saket Kapoor: Yes, sir. And lastly sir, on the website part, sir, if we look at the scale and the size and the work our company is doing, and the type of website we hoist I think so, we need to revamp our website also because that is the interface for us for not only for your investors but for the customers also. So whatever little knowledge I have for the business part, I could not find the website in anyway up to the market. And last updation was also in the year 2014, if I can look at the bottom, if that makes any sense, I could not understand that also, why a mentioned of date of 2014 is mentioned there, sir. So kindly look into the…

Pradeep Rustagi: Pardon, I couldn't. Can you repeat your last question?

Saket Kapoor: Yes, yes. I'll just repeat. So when we log into your website Ester Industries and at the bottom of the page we find the @ 2014 the copyright Ester Industries All Rights Reserved. Whenever we look at other websites, the websites are updated till 2022 or 2023, so what does this copyright 2014 stands for?

Pradeep Rustagi: I mean I'll need to check, I'm not in a position to answer at this point in time, because I'm not aware of it.

Saket Kapoor: Yes, yes, just look into it and what good can be done for this also. And also, sir, for the Telangana unit, if we can plan a plant which is once this -- it gets stabilized, so investor or video being uploaded of how the function, how the unit is performing that would give us some understanding what kind of infrastructure have we created, sir.

Pradeep Rustagi: Point well taken, sir. Point -- I'll take up this with my colleagues in the company, sir

Saket Kapoor: And for the capacity expansion at Telangana, sir. We have extra space there?

Pradeep Rustagi: We have enough land. We have 50 acres of land. We have 35 acres of land in Khatima, and 5 acre is occupied by the colony. So in 30 acres we have Specialty Polymer, three film plants, two metalyzers two offline coaters, etcetera. In Telangana we have 50 acres, a perfect rectangle plot and it can accommodate many more lines.

Saket Kapoor: So if the name plate goes to the Khatima unit of Telangana, then how does it strengthen the capacity for Khatima?

Pradeep Rustagi: For Khatima we have 60,000 tons of polyester film, Telangana, we have 48,000 tons of polyester film. And in Khatima, we have 13,200 tons of metalized polyester, in Telangana we have 10,000 tons of polyester. In Specialty Polymer we don't have in Telangana other products we don't have. It's a purely film plant in Telangana, as of now.

Saket Kapoor: Thank you, Rustagiji. And all the best to the team sir. Thank you.

Pradeep Rustagi: Thank you, sir. Thank you. We continue to remain committed to the revival, to coming back to the profit, working hard to make sure that we wipe out the losses as early as possible. Thank you so much. Thank you very much.