



Ester Industries Limited

Q2 FY 2019 Conference Call Transcript

November 06, 2018

Moderator Ladies and Gentlemen, Good Day and Welcome to the Ester Industries Limited Q2 FY 2019 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode.

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 Welcome to Ester Industries Q2 and H1 FY 2019 Earnings Call. We have with us today; Mr. Arvind Singhanian -- Chairman; and Mr. Pradeep Kumar Rustagi -- Chief Financial Officer.

We will begin this conference call with opening remarks from the management following which we will have an interactive Q&A session.

Before we begin, I would like to point out that some statements made in today's discussion may be forward-looking in nature and a note to this effect has been sent to you in the invite earlier. We trust you have had a chance to go through the Financial Performance, Presentation shared.

I would now like to hand over to Mr. Singhanian to make his opening remarks. Over to you, sir.

Arvind Singhanian Thank you, Gavin. Good Afternoon, everyone and Welcome to Ester Industries Q2 FY 2019 Earning Call. At the outset, let me wish everybody a Happy Diwali.

Let me begin this discussion by highlighting the key operational developments during the quarter and first-half post which Pradeep will run you through our financial performance.

So, to begin with, we have seen a steady pick-up in the business largely driven by the strong performance of the Film business.

As discussed in our earlier calls, the sector dynamics following attainment of demand-supply parity has changed for the better. A pleasing development especially one takes into account the rough phase most of us went through not to distant part wherein the prices wilted following the expansion spree undertaken by most of the players in expectation of strong demand.



Demand-supply unable pricing movement to remain steady. In turn helping the business to deliver consistent performance. With limited supply in the pipeline, Jindal being the only exception, which is expected to start commissioning by late Q4, early Q1 FY 2020 next year. We are hopeful of pricing remaining stable in the near-term at least.

Moving on to the demand side, we expect the momentum to continue, which should further support the realizations. The optimism stems from our discussion with packaging players, our primary customers who in turn are anticipating steady demand for their business. In addition, we are also working toward improving our product mix by increasing the share of value-added products. In turn, boosting profitability and contribution.

Specialty Polymers business remained soft. Volume offtake remains muted continuing to trail the anticipated levels. The business is still in early phased characterized by elevated levels of uncertainties especially surrounding the volumes. We believe this is a temporary phenomenon and expect the business to gain steady momentum in the medium-term to long-term.

The business demands a lot of patience both in terms of time and money. But we remain confident in its potential and are undertaking the requisite measures towards accelerating its pace.

Our pipeline as well continues to remain strong.

Moving on to Engineering Plastics business the same continuous to perform well contributing to the overall top-line of the business. Margins though remain under pressure owing to higher input prices. We are trying to increase the share of the value-added products and the mix to overcome the raw material challenges and bolstering contribution from the business.

Lastly, they are also implementing several measures towards reducing our operating cost. These include multi-tasking, multi-skilling streamlining and automation of our business process which besides making our operations far more efficient will also result in considerable savings.

Aside from this, we believe there is an opportunity to pair our interest cost and reduce debt to the monetization of our corporate office building. Our clear focus is on driving profitable growth in our core business and eliminating avoidable non-core expenses.

To conclude, I would just to reiterate, that we are on track towards delivering steady performance, thanks largely to a solid performance of the Film business. Specialty Polymers and Engineering Plastics business should support the overall growth.

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

Pradeep Rustagi

Good Afternoon, everyone and thank you for taking time out for our call. I trust that all of you have received the investor documents circulated by us earlier. Let me quickly, summarize the key financial highlights for the quarter, following which we can begin the Q&A session.

Starting with the top-line, our revenues net of excise duty and GST for the quarter stood at Rs. 276 crore, as against Rs. 197 crore higher by 40%. While on a half-year basis the same stood at Rs. 503 crore, as against Rs. 385 crore reported during H1 FY 2018 higher by 31%. The growth to a large degree was owing to the strong performance of Film business.

EBITDA for the quarter stood at Rs. 27 crore, as against Rs. 15 crore generated during Q2 FY 2018 higher by 80%. While on a half-year basis, the same stood at Rs. 54 crore as against Rs. 31 crore generated during the corresponding period last year, higher by 74%.

The expansion is to a large degree owing to our cost controlling initiatives as discussed by Mr. Singhania earlier and our efforts towards improving the product mix..

Financial cost for the quarter remained steady at Rs. 9 crore while on a half-yearly basis the same amounted to Rs. 18 crore. Our total interest-bearing debt as of September 2018 stood at Rs. 290 crore resulting in debt-EBITDA multiple of 2.67. We are working on ways towards lowering the debt and are targeting lower levels by 2020.

Depreciation for the quarter and half year stood at Rs. 8 crore and Rs. 16 crore respectively. Profit after tax for the quarter stood at Rs. 7 crore as against a loss of Rs. 66 lakhs reported during Q2 FY 2018. While on a half-yearly basis, the PAT stood at Rs. 15 crore as against a loss of Rs. 79 lakhs reported during H1 FY 2018.

Moving on to the segment-wise performance, film business continuous to performance well aided by improved sector fundamentals. Further, our efforts towards improving the product mix by introducing newer value-added products as well it is contributing to the growth.

Performance of especially Polymers business as Mr. Singhania mentioned earlier remain soft, while the near-term performance is expected to remain challenging for the business. We continue to believe in its true potential in the long-term.

Engineering Plastic business performance remains steady while it contributed positively to the overall top-line of the business higher input cost resulted in margin and profitability compression during the quarter.

We are, however, working towards improving ts product mix by increasing the share of value-added product which should result in positive contribution and contribution in the overall profitability of the business.

To conclude, I would just like to say that strong performance of the Film business ably supported by Specialty Polymers and Engineering Plastics business should help us deliver better performance in near-term.

That concludes my opening remarks. We would be happy to answer your questions, now.

Moderator

Thank you very much We will take the first question from the line of Ameya Mahurkar from Emkay Global. Please go ahead.

Ameya Mahurkar

Good Afternoon, sir. What is the profitability of the Specialty Films business and capacity utilization of the same?

Pradeep Rustagi . So, Specialty Polymer in the Q2 earned revenue of Rs. 12.43 crore with EBIT of Rs. 3 crore. The capacity utilization is significantly lower than the installed capacity, we have produced about 10% to 15% capacity utilization rate as of now.

Arvind Singhania You see, in this business the capacity utilization is not the key issue, the capacity was actually was not put up specifically for Specialty Polymer business if you remember from my previous conversations, it was an old batch plant which was producing film rate polymer which became redundant and we decided to convert it and start using it for Specialty Polymers, that was the whole concept behind it. So, really one cannot go on the basis of capacity utilization as far as the Specialty Polymer business is concerned.

Ameya Mahurkar Okay. And the Specialty Polymer business includes which part of the segment revenue, sir?

Pradeep Rustagi It is reported in the Chips and Film segment.

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

Saket Kapoor Firstly sir, congratulations on a very steady set of number Q-o-Q. And sir, just a brief understanding sir, looking into the second-half, how confident are we to even maintain these numbers or are we looking to better them?

Arvind Singhania We are very confident that we should be able to have good numbers coming out for the whole year for the financial year FY 2019.

Saket Kapoor Okay. This trend is sustainable that is what my question is.

Arvind Singhania Well, you might have some dips because the volatility in the raw material has been quite high in the last month so. Raw material prices shot up through September and October and too late October and early November the raw material prices have crashed again. So, if you take this upheaval of the volatility of raw material, the margins are expected to remain steady.

Saket Kapoor Right sir, could you elaborate more on the raw material basket, sir? How the prices, what are the key raw materials and how are the price trends have been up and down part?

Pradeep Rustagi The key raw materials are PTA, Pure Terephthalic Acid and Mono-ethylene glycol, MEG. So, in let us say last week of September or first week of October the PTA was in the range of about Rs.83 – Rs.84, which have now reduced to about Rs. 77 a kg whereas, the MEG which was Rs. 74 a kg has reduced to Rs. 67 a kg.

Arvind Singhania Overall, what has happened is that the prices of raw material shot up by more than Rs. 10 a kg in a month and the same has reversed in less than a month between in the second-half of October and early November.

Pradeep Rustagi So, last week of August the PTA was about Rs. 77 which is the rate prevailing as of now.

Saket Kapoor Okay. So, sir, the average for the September quarter for PTA was how much for our average cost?

Arvind Singhania In terms of raw material of per kilogram of PET, our prices went up as high as Rs. 97 a kg - Rs. 98 a kg and now this has come back to the region of about Rs. 87 a kg.

Saket Kapoor Rs. 87 a kg or Rs. 77 a kg, sir?

Pradeep Rustagi Rs. 87 a kg, per kg of Chips, or let us say per kg of Film.

Saket Kapoor Sir, I am not getting sir, earlier you told that it was Rs. 84 got reduced to Rs. 77, if I am not wrong.

Arvind Singhania No, that PTA energy, I have now actually to make it easier for you I have combined the PTA MEG in the tachometric formula and I am telling the price of raw material for per kg of film and less than a month time there will be a volatility of Rs. 20 a kg which went up by Rs. 10 a kg to Rs. 12 a kg and it has dropped back by Rs. 10 a kg to Rs. 12 a kg within a period of 2 months.

Saket Kapoor Right, sir. So, you were telling the price for the mix was Rs. 97 and from Rs. 97 it has declined to...

Pradeep Rustagi It comes back to about Rs. 86.

Arvind Singhania Rs. 10 loss.

Saket Kapoor It is Rs. 86, sir. So, sir, the cost...

Pradeep Rustagi It went up from Rs. 86 to Rs. 96 and come back to Rs. 86.

Saket Kapoor Okay. Sir, for this quarter sir, we did took any price hike or how has in the pass on, how is this raw material fluctuation is getting transmitting to the selling price, what is the lag time if you could explain?

Arvind Singhania In this business the raw material gets passed on all the time. If it goes up, it gets passed on. If it comes down it gets passed on. Passing on the raw material volatility is not the problem but when the raw material prices drop very drastically, the demand offtake slows down because people are expecting, customers are expecting drop in finished good prices, so they slow down the purchase and this is not only with respect to Polyester Films, it is with respect to all products in the PET industry whether it is yarn or bottle grade or film or anything. This has a dramatic effect on the offtake. So, we are now hopeful that the raw material will stabilize going forward from now onwards and we should see steady state returning in the next 10 days - 15 days.

Saket Kapoor Okay. And this is all regarding the crude price volatility only, it is all the mirror replication...

Arvind Singhania It is both, it is related to crude also and also related to the volatility per se within the raw material.

Saket Kapoor Right, sir. If I look at the balance sheet, we find that both the borrowings as well as the current liability part I think so the borrowing for both under the long-term and short-term has gone up. I think, the current liabilities have gone down by Rs. 20 crore but the long-term has gone up Rs. 30 crore - Rs. 38 crore. So, how do you explain this change and what will be sustainable?

Pradeep K Rustagi In the quarter ended June 2018; we had taken a term loan of about Rs. 53 crore from the banks which helped us reducing the working capital borrowings. So, the overall interest bearing debt remains the same whereas the term debt has increased the working capital borrowings have reduced.

Saket Kapoor Sir, just on a turnover base of around Rs. 820 crore net of excise, what was our turnover for last year i guess it is Rs. 830 crore only.

Arvind Singhania Net of excise this year will be close to Rs. 1,000 crore in terms of turnover.

Pradeep Rustagi It would be able to cross Rs. 1,000 crore.

Saket Kapoor Okay, sir. But sir, on an Rs. 1,000 crore base we require something around Rs. 300 crore of bank finance....

Arvind Singhania That is including long-term debt, no.

Pradeep Rustagi So, then there is other current liabilities for which we are not paying any interest which will be traded payables, the interest-free credit that we get from our suppliers. So, we look at interest-bearing debt which is the working capital borrowings, the term borrowings, and the purchases under LC which are with interest to our accounts.

Saket Kapoor No, my point was that for we do a business of Rs. 1,000 crore, for that we need Rs. 300 crore of the loan. So, the conversion ratio only 3 times that is...

Pradeep Rustagi The term loan as of now on 31st March it was Rs. 65 crore and if we were to look at the current position of term debt it would be

Let us on 31st March 2019, it would be about Rs. 74 crore.

Arvind Singhania So, total working capital debt that we have book is less than Rs. 220 crore.

Saket Kapoor Okay.

Pradeep Rustagi So, this Rs. 290 has been steady with the increase in the working capital utilization has gone up but we have been able to reduce the term debts. And when we borrowed the term debt that we have used to reduce the working capital utilization. So, overall, interest-bearing debt remains at Rs. 290 crore.

Saket Kapoor And what is our average cost of borrowing?

Pradeep Rustagi Average cost as of now is about 11.5% between 11% - 11.5%. Because the buyer's credit has been discontinued by the Reserve Bank of India, so that use to help us in reducing our interest cost.

Saket Kapoor Sir, which rating agency, we get our report from?

Pradeep Rustagi Brickwork.

Pradeep Rustagi And we are currently rated as BBB, neutral with a stable outlook.

Saket Kapoor Okay. And when is the reviewed due, sir, generally?

Pradeep Rustagi we have reviewed with them the September quarter review the results. So, next week, we would share the results with them and we expect them to look at our consistent performance and then sort of improve the rating, if not in this quarter at least next quarter we are expecting it to happen.

Saket Kapoor sir, but the wait period for our Specialty Polymer part is just getting elongated. So, just wanted to understand, sir, what are the key milestones that are still awaited that is preventing our company to commercialize what we have been speaking about the segment the patent part for a very long time now. So, what are the key milestones that are pending, that will translate into the actual number, sir?

Arvind Singhania Well, you are absolutely right, the wait has been very long. If you can feel it, you can feel that the wait for us has been even longer. But it is not that the wait is going to be endless. We are hopeful of seeing some very positive results coming very soon. I am unable to speak to you on specific areas because of a confidentiality agreement that we have a place with our customers but we have 3 projects which are ongoing right now. It will start materializing very soon. So, please do not ask me on any details but as I am unable to do so because of confidentiality but we are expecting these 3 projects to start one-by-one in a short period of time.

Saket Kapoor So sir, the second-half we can expect, we can hear something about it or it will be in the first quarter of next financial year?

Arvind Singhania I think, we may hear something, god willing we will hear something in this financial year.

Saket Kapoor Ok So, sir, for the Engineering Plastic part, sir, what is our business model here and why are the margins so low

Arvind Singhania The margins are not low per se I mean they are all right, considering the business it is never a business that is going to give us superlative performance ever. It is a steady state margin and purely the margins are under pressure have been at this level because of competition and also, because of volatility of raw material again this segment has also been hit very badly by volatility of raw material, PBT pricing, shot up to the roof until July, August, September and has again taken a very sharp downturn and the prices have dropped dramatically. So, the same lag effect takes place here and we are hit with stock losses because we have stocks these are important material. So, this is the main reason, volumes are growing especially in terms of our OFC business the volumes are growing. But raw material volatility has cause problem because of...

Pradeep Rustagi Otherwise, we were consistently earning EBITDA margins in the range of 6.5% to 8% but this quarter has been there has been a drop because of the volatility in raw material prices.

Saket Kapoor Sir, which segments are we catering in the Engineering Plastic?

Arvind Singhania We are doing the electrical, electronic, telecom, , white optical fiber cable, so we have pan industrial applications.

Saket Kapoor And what is the potential for I mean if we take the utilization levels for the company and as the demand increase, as the vertical which you have mentioned are already showing good demand trend, so what is our capability? I mean last year we posted around Rs. 176 crore in this segment. So, what is the...?

Pradeep Rustagi Yes, this year we should crossing, in the first-half year I have already done Rs. 100 crore, we are targeting to cross Rs. 200 crore this year in the top-line.

Arvind Singhania In fact, one of the good things that have happened is that our exports which we have been working on for the past 3 years have started showing results and this year we expect our exports to touch almost 1,100 tonnes.

Pradeep Rustagi In value terms about Rs. 15 crore.

Saket Kapoor Rs. 15 crore, that is on a base, sir, last year base of?

Arvind Singhania Last year was nothing, hardly negligible.

Saket Kapoor And which segment it is particularly? Any particular industry which we are having or again a basket?

Arvind Singhania It is a basket.

Saket Kapoor And sir, if you reach the right economy of scales, are the margins improvement expected as the turnover goes with the fixed and variable cost equation coming into play?

Arvind Singhania Yes, there will be an effect of economies of scale and that will reflect in an improvement in margins and the margins which are in the range of 6% to 7% will grow to about 9% to 10% as we reach higher volumes.

Saket Kapoor Sir, peak level I am trying to contemplate, for a peak level, we can achieve Rs. 200 crore ballpark figure?

Arvind Singhania Rs.200 crore is this year's target.

Saket Kapoor Okay. Then what is the peak level capacity for us for this engineering plastic segment?

Arvind Singhania We can reach with the current capacity, we can do about anything between Rs. 250 crore to Rs. 300 crore.

Saket Kapoor Okay. Sir, then this is only the volatility part that is stopping us do because I do not think the demand is any way bothering us.

Arvind Singhania Demand is not an issue; volatility has played a role in the last to last year or four months. If volatility not there, the number would have been definitely better and since, there is growth in the application that we are servicing, we will see that growth translate into our own business. So, we can expect to grow with the same growth rate or more than the application that we serve.

Saket Kapoor Right sir. And lastly, sir, our main business for Polyester Chip and Film, as in your opening remarks, you have already spoken about it that demand is good only one capacity from the leader Jindal Poly will be on stream. So sir, other than that what are the pain-points for this sector and how can we improve our numbers in this segment?

Arvind Singhania See, we are doing 2 things to improve our numbers. Number one, let me reassure you that demand growth is very solid in this business and this can be easily

corroborate by, if you see the numbers of FMCG growth, our biggest customers are the FMCG customers.

So, the growth of our business can be directly co-related to the growth of the FMCG business. So, we are expecting our film business to grow by about 12% to 14% in demand growth. So, with the current we talk about in India 500 tonnes - 1,000 tonnes per year in India, you can expect the growth to be anywhere between 40,000 tonnes to 50,000 tonnes per year in the Film business. That is number one. Number two, like I have said in my opening remarks, there is no major new capacity coming in, only one line coming in of Jindal at the end of Q4 FY 2019 or maybe early Q1 FY 2020 and this is not expected to make big upheaval in terms of the demand-supply. So, therefore, we expect margins to continue. Thirdly, we are continuing to increase our proportion of value-added products, which is going to act as a great mitigation factor for any volatility in terms of base Film prices. Fourthly, we have taken on a very strong cost-cutting program, this is showing very good results. Just to let you know that we have targeted a reduction of about Rs. 14 crore to Rs. 15 crore in terms of cost-cutting, out of which about Rs. 5 crore has already been achieved. And the balance Rs. 9 crore to Rs. 10 crore is expected to be completed by April, May next year. Apart from that, we are also looking at monetizing our corporate office building which will help to reduce debt by about Rs. 35 crore and have an annual saving, interest saving of about Rs. 5 crore to Rs. 6 crore. So, overall, we are looking at savings of about Rs. 20 crore per annum, which is now in the process of being implemented.

- Moderator** Thank you very much. We will take the next question from the line of Pratik Matkar from Dolat Capital. Please go ahead.
- Pratik Matkar** I have 3 questions basically, first is like what is your outlook on EP business?
- Arvind Singhania** This year we are going to clock a turnover in excess of Rs. 200 crore compared to Rs. 170 crore in FY 2018. And we expect this business to continue growing by about 10% per annum over the next 2 years - 3 years.
- Pratik Matkar** Okay. And like how do you see the update is coming down, realistically how much debt you believe that you will bring down in coming years?
- Arvind Singhania** Well, the first portion of debt reduction we expect that to come down by about Rs. 35 odd crore coming through from the sale of a corporate office building, which we expect it to happen in the calendar year of 2019. So, that is one major chunk that was reduced and after that, we will see depending upon the business performance as the business performance improves, we will see how we can reduce the debt even more.
- Pradeep Rustagi** We will continue to repay the scheduled debt on time as per the repayment schedule that we have agreed with the bank. So, according to that, we would be repaying Rs. 44 crore this year and Rs. 20 crore next year.
- Arvind Singhania** See, this year our repayment was about Rs. 44 crore out of this Rs. 27 crore has already been paid balance Rs. 14 crore will be paid by the end of March 2019.
- Pradeep Rustagi** As per schedule
- Arvind Singhania** And from next financial year onwards our repayment is only Rs. 20 crore a year approximately. So, we do not have much repayable debt on the books, only about Rs. 70 odd crore.

Pratik Matkar Okay. And the last question is like what is the progress on Specialty Polymer business as you had mentioned earlier that there are some new products in the line up?

Arvind Singhania Yes, so in terms of Specialty Polymer business we are already doing a small volume of our Stain Resistant product to one company in America but that volume is not very large that will continue every year, But there are 3 other projects which are in the pipeline which have a substantial potential I am not at liberty to discuss them in retail right now because of confidentiality agreement with the customer. But we expect to see movement in them very shortly.

Moderator Thank you. Next question is from the line of Aman Sonthalia from AK Securities. Please go ahead.

Aman Sonthalia Sir, my question is what is the spread in BOPET, right now and what it was in the Q2?

Arvind Singhania Spread, you mean margin?

Pradeep Rustagi Q1 let us say Non-Metalized, Plain Film, Domestic, we were getting about Rs. 40 a kg over raw material and Q2 we were getting about Rs. 45 a kg over raw material in the domestic market in Plain Film.

Aman Sonthalia And what is currently right now, sir?

Arvind Singhania Currently it is about Rs. 40 a kg.

Aman Sonthalia It has come down a bit?

Arvind Singhania Yes, the reason is that of the volatility of raw material. When the raw material prices come down sharply, the prices have to be passed on even before that raw material takes effect that is the reason. And also, during Diwali, see Diwali season ends about 15 days - 20 days before Diwali starts for Diwali days. So, this is actually the dullest season for us, the dullest period for us.

Aman Sonthalia Okay. And sir, how is the international scenario for the BOPET?

Arvind Singhania International scenario for BOPET is fine, the prices and the margins are quite good...

Pradeep Rustagi And demand growth it is about 6%.

Arvind Singhania Overall global demand growth is about 6% which is fantastic. Domestic demand is growing at about 12% to 14%. The current margin dip which you are seeing that is only because of Diwali and the volatility of raw materials.

Aman Sonthalia So, hopefully it will be again go back to the normal better than 45?

Arvind Singhania 10 days - 15 days after Diwali the demand comes back to normal.

Aman Sonthalia And sir, as you have said that there is no major capacity coming in India. So, how is the international scenario as far as supply is concerned, any major capacities coming in the international market? So, I think...

Arvind Singhania See, China was the one who had created the maximum capacity since 2004 and 2014 - 2015, they went up from a level of almost 75,000 tonnes per annum to almost 1.5 million tonnes capacity was put up in China in 10 years to 11 years. No, new capacity is put up in China. And capacity utilization is steadily growing on a global basis. So, that is the reason why we are seeing steady margins and they will continue to improve.

Aman Sonthalia So, sir, at the current margin, whether it was viable to set up a new plant whether it attracts the new investment at the current margin?

Arvind Singhania See, at the current margins demand is continuing to grow, let us be very clear. Demand is continuing to grow by 12% - 13% per annum. So, to meet the demand you have to increase the capacity, you cannot keep the market starving.

Aman Sonthalia That is true. So, in the short-term, in the medium-term, the margin will remain quite good?

Arvind Singhania Yes, we expect demand to remain steady and stable and maybe improve over the next short-term to medium-term.

Moderator Thank you. Next question is from the line of Siddharth Rajpurohit from JHP Securities. Please go ahead.

Siddharth Rajpurohit Sir, can you help this spread, this gross margin for Q2 FY 2018, please?

Arvind Singhania Actually, last year Q2 was the worst period. If I remember correctly, the similar numbers were about Rs. 20 a kg to Rs. 25 a kg, I will share the numbers with you, Pradeep, will give you separate numbers.

Pradeep Rustagi September 2017, the Plain Film we were getting about Rs. 26 as compared to Rs. 45 in September 2018 quarter. So, there will be an improvement of about Rs. 19 to Rs. 20 a kg.

Arvind Singhania Our margins have actually doubled since last year.

Siddharth Rajpurohit Yes, sir and this scenario will continue to say because no capacities are coming up and new capacity will at least take 18 months or 24 months to come up. So, the scenario is expected to continue for at least a year's time?

Arvind Singhania Yes, you are absolutely right. Only 1 new capacity of Jindal is starting up by March - April next year.

Siddharth Rajpurohit Right, sir, you mentioned that. Sir, just wanted to have one clarity, sir, my assumption is that permeability between BOPET and BOPP in terms of usage. Can BOPP act as a substitute because BOPP segment is currently not in a good shape? My understanding they are almost operating at cost.

Arvind Singhania No, the overlap is very-very marginal. Please understand, PET gives you very good gas barrier properties while BOPP gives very good moisture barrier. So, the applications are segmented.

Siddharth Rajpurohit Okay. So, there is no overlap per se.

Arvind Singhania Very marginal overlap.

Moderator Thank you. We will take the next question from the line of Saket Kapoor from Kapoor & Company. Please go ahead.

Saket Kapoor Sir, under this segmented reporting, we found this other unallocable expenditure net off that is about Rs. 10.5 crore for this quarter and Rs. 11.5 crore for the previous quarter. How do we explain this, sir?

Pradeep Rustagi So, there is a marginal increase in the administrative expenses on account of legal and professional, so that has resulted in an increase of about Rs. 1 crore.

Saket Kapoor No, sir, I am talking about Rs. 10 crore being, if we take the segment revenue, the segmented results.

Pradeep Rustagi So, the corporate expenses which are not directly related to the business. So, for example, the salaries of the corporate office people, financial accounts, the administrative major expenses which had incurred for the company in totality, so these are the expenses...

Arvind Singhania These are non-allocable expenses.

Pradeep Rustagi Not directly related to the business, business means the segment that we have reported.

Saket Kapoor Okay. But actually, these are only the segmented reporting that we have to do just for the accounting purpose.

Pradeep Rustagi Yes. And you will see a certain consistency. There is no major variation from one quarter to another quarter while reporting these expenses.

Saket Kapoor Sir there is also mention about other expenses you were telling something, that has gone up for this quarter, I think, in some notes also you have mentioned.

Pradeep Rustagi Other expenses have gone up marginally because of the legal and professional expenses, increase in the legal and professional expenses.

Saket Kapoor How much that increased, sir?

Pradeep Rustagi About a crore.

Saket Kapoor About a crore, but what we are seeing around Rs. 8 crore jump quarter-on-quarter but that is proportionate to the turnover increase also, I think. From Rs. 38.6 crore, it has gone up to Rs. 46 crore for this quarter-on-quarter.

Pradeep Rustagi . So, you have raw material separately reported, employee cost and finance cost, other expenses include selling and distribution expenses, power and fuel expenses. So, there has been an increase in the power fuel expenses because the fuel that we use are furnace oil, SSG, etc. there has been an increase in those expenses during the quarter.

Saket Kapoor Correct. Sir, you were talking about the capacity when I was just put into the queue. There sir, the total capacity for our countries like 5,50,000, am I correct?

Pradeep Rustagi The total capacity, installed capacity of Film in India is about 600,000 tonne.

Saket Kapoor 600,000 tonnes and if you divide it player wise sir, how much it is? Jindal how much and in the order of top #3?

Pradeep Rustagi Jindal is highest at about 110,000 then Polyplex, Ester, Uflex, etc. are in the range of 55,000 tonnes to 60,000 tonnes.

Saket Kapoor Okay. Means the biggest player is only having 20% market share, less than 20%.

Pradeep Rustagi Yes, 20% will be capacity.

Arvind Singhania Biggest Jindal is at about 21% of the total capacity, the other players are at about 9% to 10% of the capacity.

Saket Kapoor Right, sir.

Pradeep Rustagi Players are there with 5% each.

Saket Kapoor Okay. And now the biggest player is expanding its capacity by what percentage, sir?

Arvind Singhania He is putting in a new line of about 3,000 tonnes - 3,500 tonnes per month.

Saket Kapoor So, that translate into 36,000 tonnes to 40,000 tonnes in totality?

Pradeep Rustagi He will increase this capacity from 110 to let us say 145.

Saket Kapoor 145, so that is also 35% to 40%, jump. So, sir, depending upon the demand and supply equation, would it be denting on our margin, sir going forward when they will be running on full-fledged or how much is the import means whether the Films are...

Arvind Singhania There is virtually no import.

Saket Kapoor So, sir, how is this capacity going to play? I mean it will be totally for the export part only? I just want to understand the consumption pattern here also, sir.

Arvind Singhania I told you that the current demand in India about 450,000 tonnes per year, which is growing at about 12% per annum. If I take 12% of 450,000 tonnes, it is about 50,000 tonnes per year. So, the demand over last year has grown by more than 50,000 tonnes, he is coming up with the 40,000-tonne capacity. Let me put it this way we have to take care of this additional capacity that is coming in. or to put it another way, if this line does not then there would have been shortage.

Pradeep Rustagi Shortage, there would have been a shortage.

Saket Kapoor Are we also contemplating something to come up how much what is the cost of putting up a 10,000-tonne capacity today? The Greenfield and....

Arvind Singhania 10,000 will not come capacity. If capacity comes then it will be 40,000 - 45,000.

Saket Kapoor Okay, sir. What is the cost outlay of this and how is the return according to this situation?

Arvind Singhania See, it is an approximately an Rs. 300 crore investment.

Saket Kapoor Okay. And sir, what is minimum top-line? Sir, ours is 50,000 capacity?

Arvind Singhania Yes, top-line if I consider Rs. 100 base price without considering any value-added product then you will get a top-line of about Rs. 400 crore or Rs. 450 crore per year.

Saket Kapoor Right, sir. And the base margins will fluctuate in what pattern?

Arvind Singhania See, those are fluctuating, so one can, it is very difficult to assign a number on the payback period. It depends on how you view it

Saket Kapoor I am talking Tinsplate industry, do Tinsplate do falls in our competition because they are also in the packing in the same flame part only, electrotype...

Arvind Singhania No, they are nothing to do, we have nothing to do with packing.

Saket Kapoor Ok sir, thank you that's all from my side.

Moderator Thank you. We will take the next question from the line of Siddharth Rajpurohit from JHP Securities. Please go ahead.

Siddharth Rajpurohit Sorry, sir, if this has been asked, I got dropped on the call. So, Q-on-Q we have mentioned that our gross margin has gone up from 40% to 45%. But if I calculate the EBIT margin, it shows a slight dip Q-on-Q. So, if you can please elaborate, sir?

Pradeep Rustagi So, with the 40% to 45% we are talking of Polyester Film business only.

Siddharth Rajpurohit Right, sir.

Pradeep Rustagi So, there are other 2 segments also.

Siddharth Rajpurohit Polyester Chips and Film segment I am talking, sir.

Pradeep Rustagi And then the gross margin is, the selling price minus raw material cost. As we told in the previous question, there has been an increase in the power and fuel expense.

Siddharth Rajpurohit Okay. So, that has eaten in.

Moderator Thank you. Well, Ladies and Gentlemen, that seems to be the last question for today. I would now like to hand the conference over to the management for their closing comments.

Arvind Singhania Ladies and Gentlemen, thank you very much for attending the Q2 and H1 FY 2019 Earnings Call of Ester. Thank you very much.