



Ester Industries Ltd Q3 and 9 months FY 16 Earnings Conference Call Transcript February 11, 2016

Moderator Good day ladies and gentlemen and welcome to the Ester Industries Q3 and 9 months FY 16 earnings conference call. I now hand the conference over to Mr. Gavin Desa from CDR India. Thank you and over to you Sir.

Gavin Desa Thank you Malika. Good afternoon everyone and welcome to Ester Industries Q3 and nine months FY 16 analyst and investor conference call. We have with us today Mr. Arvind Singhanian, Chairman and Mr. Pradeep Kumar Rustagi, the Chief Financial Officer. We will begin this conference call with opening remarks from the management following which will have the floor open for interactive Q&A session. Before we begin I would like to point out that certain statements made in today's discussion maybe forward-looking in nature and a note to that effect was stated in the con call invite sent to you earlier. We trust you have had a chance to receive an go through the documents on financial performance; I would now like to hand over to Mr. Singhanian to make his opening remarks. Over to you Sir.

Arvind Singhanian Good afternoon ladies and gentlemen and welcome to Ester Industries Q3 and nine months FY 16 earnings conference call. We are delighted to have you all with us. It is our intention to conduct such forums on sustained basis with a view to encourage transparency and openness and create a strong communication channel with the investors and analyst community. I would like to take you through the company's businesses following which Pradeep would take you through the financial highlights for the quarter ended December 31st, 2015.

Let me begin by giving you a brief background about the company. Ester Industries is a leading supplier of polyester films, engineering plastics and speciality polymers. Our business thrust however is on reversing this order and transitioning into a technology driven innovative and consumer centric entity with an emphasis on value addition and profitable growth. I will take you through the strategy a little later in my remarks.

Let me briefly run you through our polyester films business first. With more than two decades of experience Ester is a well-known name in polyester film industry. Our manufacturing unit is located in Khatima, Uttarakhand. Manufacturing capacity at present consists of 57,000 metric tons per annum for polyester films and 13,200 metric tons per annum for metallized polyester film. We market our polyester films under the brand "Uma PET". We manufacture wide range of BOPET films for packaging and industrial applications from plain and metallized films to value added products like transparent barrier films, shrink film, etc., Transparent barrier film is being keenly explored by global buyers to replace PVDC quoted PET which is environmentally hazardous material and EVOH coextruded films due to their

higher mass. What we are basically trying to do with this business is to improve our overall product mix by focusing on developing and increasing the share of value added products to mitigate the inherent cyclicity impact. Sale of value added and speciality films contributed about 15% of the total sales volume of polyester films in FY 2014-15. We are working towards increasing its share to 35-40% over the next 2 to 3 years.

Moving on to engineering plastics, we started this business in 1995 and were awarded the prestigious Plasticon Gold Award for the Fastest Growing Enterprise-Processing (Engineering Polymers) at the Plastindia Exhibition in February 2015. FY 15 was the third consecutive year wherein we delivered better than industry growth rate. The business has recorded an impressive CAGR of 35% from FY 2011-12 to FY 2014-15. We manufacture and market our engineering plastics products under the brand name "Estoplast". Our focused customer acquisition process and improved product range has helped us enhance our active customer base by 50% approximately, with some key approvals being secured from original equipment manufacturer OEMs/Tier-1 customers in the automotive, electrical and appliances industry. Our continuous focus on new product development to meet customer needs has helped us in expanding our product portfolio by 40% including specialized high wear resistance grades diffuser for LED application and glass 50% nylon grades with good flow characteristics. We also recently commenced exports of these products and have also created a dedicated team for developing the business. Lastly we have availed the services of global consultant to assist us in formulating and implementing the growth strategy for the EP business towards creating a sustainable and profitable long term business.

I now move on to our speciality polymer business, which will over the next three years be the largest component of our business. While we started working on the same around five years ago but in terms of growth potential this business surpasses the other two and will drive a bulk of the company's growth going forward. We have spent almost 50 crore or so and I am proud to say that we are very pleased by the progress made by us in this business. We have developed an exciting and innovative product pipeline, 15 products at present of which we have filed patents for eight of them. We filed two applications for incremental development for sulfonated polyester master batch product during Q3 FY 16 itself. Of the total products we have started commercialization of nine products. In addition, we also have 18 products in the pipeline which are at various stages of development. Some of our key products in the business include stain resistant master batch for carpets and PET resin for Hot-fill rigid packaging application. We have provided detailed information about these products in our annual report and I would urge you to please go through the same to gain deeper understanding. We were recently also felicitated at the 6th National Awards for Technology Innovation In Petrochemicals under the category of Innovation In Polymeric Materials. We were selected as joint winner in the category of Innovation in Polymeric Materials for modified polyester for Hot fill applications by injection stress blow molding process. Just to give you a brief background we have successfully developed a polymer with which bottles / jars can be blown with normal ISBM process without the need for heat set and also permitting filling temperatures of more than 90° C. The use of PET for packaging Hot fill products is highly desirable and preferred by end users as it not only reduces the overall cost but also makes it user friendly by being lightweight and unbreakable. Further, we were also selected as joint runner-up in the category of Innovation in Polymeric Materials for polyester master batch to impart stain resistance in nylon carpet applications. Our master batch provides total flexibility to producers of nylon yarn for carpets to adjust the contents of the active ingredient for stain resistance to their specific needs thereby reducing the cost as well as providing total flexibility in the production process. The above mentioned products are just few of examples of our innovative and continuously

strengthening product portfolio; we have lots of exciting stuff happening in this business and are confident of the business growth potential.

To conclude I would just like to say again that we are undergoing transformation at present where we are focusing on developing innovative products and offering customized solutions to our customers to emerge as innovation & technology driven company from being the commodity player at present. This transformation should address the cyclical impact impairing the business at present. We are very clear that speciality polymers business will drive majority of the business growth going forward and as such are undertaking necessary steps. Our goal for legacy businesses, polyester films and engineering plastics is to make them attain scale which will complement our overall business growth.

I will now hand over the floor to Pradeep who will run you through our quarterly and annual performance. Thank you.

Pradeep Kumar

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

Our revenue for the quarter stood at Rs. 174 crore as against Rs. 213 crore generated during Q3 FY 15. While on a nine months' basis the same stood at Rs. 587 crore as against Rs. 688 crore reported during the nine months FY 15. Of the total Rs. 174 crore revenue for the quarter polyester films reported revenues of Rs. 129 crore, engineering plastics generated revenues worth Rs. 35 crore while speciality polymer had revenues of Rs. 10 crore. On a nine-month basis polyester films reported revenues of Rs. 426 crore, engineering plastics generated revenue of Rs. 113 crore while speciality polymer delivered revenues worth Rs. 48 crore. Performance of polyester films business was a bit subdued primarily owing to weak realization in margins. Declining oil prices also resulted in inventory valuation losses. As a part of our strategy for this business we are focusing on increasing the share of value added products in the overall mix as highlighted by Mr. Singhanian earlier. High proportion of value added products should help us soften the impact of overall cyclical associated with the business. Engineering plastics performance is showing signs of improvement owing to improved product portfolio. Improved product mix also resulted in improved margins and profitability for the business. As mentioned earlier we have availed the services of global consultant to realize the true potential of the business who will help us chalk out the detailed strategy for business going forward. Specialty polymer business continues to gain traction as indicated by the nine-month number. This is the business which will drive bulk of the business growth going forward. We are extremely pleased with the on ground development of the business as indicated by the recent awards wins and increasing number of patents being filed. We have already commercialized nine products; volume continues to grow in few of our main products namely Hot-fill and stain resistant master batch. Customers are very happy with the products and have given clear indications to grow volumes rapidly.

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

Moderator

The first question is from the line of Sachin Kasera from Lucky Investments.

Sachin Kasera

Sir, if we see your speciality polymers the revenue for the quarter is lower compared to what you reported in Q1 and Q2. Can you give us some sense on

what was the reason for that and how you see the order booking for Q4 and for FY 17?

Arvind Singhania We did about Rs 20 crore of total revenues in FY 15 and we intend to do about Rs 65-70 crore for the whole of FY 16. Q3 orders got delayed a little bit which have been completed in Q4 so overall we are extremely bullish about our speciality polymer business and even going forward we expect revenues from the speciality polymer business in the next financial year to increase substantially over what we will close in FY 16.

Sachin Kasera How do you see the margins next year with the substantial improvement in revenues in FY17?

Arvind Singhania Overall EBIT margins in speciality polymer business will continue to improve because as the volume grows the EBIT margins will improve. The advantage of speciality polymer business is being a technology driven business it is not subject to any kind of cyclicity. Whether the raw material comes down or it goes up our margins are maintained. As the volumes grow our EBIT margins for the business will continue to grow.

Sachin Kasera What is the type of order book you have as of now which gives you the confidence to be able to do a better number in Q4 and FY 17?

Arvind Singhania We already had the orders in hand and in Q4 itself we will do almost as much as we did in nine months up to December 2015 and both for our stain resistant and our hot fill products, in fact in hot fill product we will do more than what we did in the nine months' period. These are the two flagship products in our stable.

Sachin Kasera You are saying that in hot fill cumulatively what you have done in the nine months you will do almost equivalent in Q4 itself?

Arvind Singhania Yes correct.

Sachin Kasera What was the number for nine months of hot fill?

Arvind Singhania About 150 tons is what we did in nine months. Apart from that we have many other products which we are selling but these are the two key products of ours in our stable and going forward we expect volumes to grow substantially in the next year and the years after that.

Sachin Kasera Second question was regarding your master batch product for the carpet, I believe you had already have got engaged with one large player in the US, I believe you are trying to talk to one more player who is equally large so can you tell us what is the progress on that?

Arvind Singhania One very large player is already a customer of ours. We are continuously sending them product. We expect volumes to keep on going up. The qualification process with the second large customer is in progress which is going well. We expect some results over the next few months. But apart from that I am also happy to tell you that we have signed an agreement with Americhem in January, Americhem is the one of the largest master batch manufacturers in America and they have a global spread with very large manufacturing & sales facility in China as well. So they will be distributing our stain resistant master batch to the smaller verticals in America. So this agreement has been signed in January.

Sachin Kasera What is the outlook for FY 17 for polyester business?

Arvind Singhanian FY 17 right now if you go back in time last year first half the polyester film business was very supportive and we made decent money but in the second half the margins fell drastically. We expect that the polyester film business in the coming two or three quarters to remain under pressure.

Moderator The next question is from the line of Praveen Kumar Sahay from B&K Securities.

Praveen Kumar Sahay As both of you said that your focus going forward will be on speciality polymers, so in speciality polymers your current sales in speciality is around 15% and you are going to increase it to 30-40% going forward will that require any additional CAPEX also?

Arvind Singhanian No not any CAPEX of significance. All that we needed to have done in terms of CAPEX is already been done over the last years. I am not talking about a few crores here or there but no major CAPEX is required.

Praveen Kumar Sahay With your all the previous capacity expansions, all the CAPEX which you have planned those lines are already operational?

Arvind Singhanian Yes, correct.

Moderator The next question is from the line of Kashyap Jhaveri from Capital 72 Advisors.

Kashyap Jhaveri In one of the remarks you mentioned that in case of speciality polymers notwithstanding what happens to the raw material price your margins remain protected. Is that correct?

Arvind Singhanian Yes absolutely.

Kashyap Jhaveri So let us assume let us say that the raw material prices are Rs. 50 a kg and earlier you were charging customers let us say 30% above about that Rs. 50 you would be charging about let's say Rs. 65 to that particular client. Now that Rs. 50 raw material will adjust the prices increase and it goes up to Rs. 100 per ton what you could charge your clients will be 30% margin so about Rs. 130 a ton? Would that be a right assumption?

Arvind Singhanian Our margins are fixed not on percentage basis but on absolute numbers.

Kashyap Jhaveri So per ton basis.

Arvind Singhanian Exactly.

Kashyap Jhaveri So let's say Rs. 50 raw material price and you were charging him Rs. 15 per ton so 65 when it goes up to 100 you will charge Rs. 115 a ton.

We can do 30+15 45 also I am not disputing that I am just trying to understand. Let's say in case of other businesses where let us say lower raw material prices could hurt your gross margins in absolute number here that does not happen?

Arvind Singhanian That is absolutely right. Basically even in polyester films the drop in crude oil prices and hence the drop in raw material prices and hence the overall drop in the product pricing is very good from the long run because as the product pricing comes on

usage goes up. But right now the polyester film business is under pressure because overcapacity and the drop in crude oil which has dropped the price of raw material and has hurt us in inventory valuation. So it is a margin pressure in polyester films. This margin pressure is not felt in the speciality polymers business. And like I said the margins in speciality polymers business are protected irrespective of raw material because we have an understanding with our customers the raw material movement is passed on to them whether it is a decrease or an increase.

- Kashyap Jhaveri** As you do more volumes your gross margins are protected the other OPEX whatever is fixed in nature it gets spread over per ton basis fairly widely.
- Arvind Singhanian** Exactly. So EBIT margins for the business will keep on improving as the volume grows.
- Kashyap Jhaveri** What is the current EBITDA per ton in this business?
- Arvind Singhanian** Right now EBIT margins is in the range of about 15-20% in speciality polymer.
- Pradeep Kumar** EBIT per ton depends on the product mix, so last year we have not done much quantity of our two flagship products. Going forward the volume proportion of such products would be higher. So EBIT per ton comparison would not be the right thing to do at this point in time.
- Kashyap Javeri** What is the total volume in nine months four total speciality polymers business?
- Arvind Singhanian** About 2500 tons.
- Kashyap Javeri** And of which flagship products were 150 tons.
- Arvind Singhanian** No 400 tons for nine months.
- Kashyap Javeri** And 2100 tons were other products.
- Arvind Singhanian** Yes, correct
- Kashyap Javeri** Going forward we believe that these two flagship products which is hot fill and stain resistant this will form a fairly larger pie of this speciality polymers.
- Arvind Singhanian** Yes, correct.
- Pradeep Kumar** Almost 25 to 30%.
- Kashyap Javeri** And those two products versus the other 2100 ton would have better EBIT per ton?
- Arvind Singhanian** These two products have a better margin than the other products.
- Kashyap Javeri** And this 2100 tons would be total 6 products?
- Arvind Singhanian** 8 or 9 products.
- Kashyap Javeri** 8 or 9 products, 2100 tons and 2 products 400 tons.

Moderator The next question is from the line of Pritesh Chheda from Emkay Global..

Pritesh Chheda You said 400 tons of the two products that you sold in nine months?

Arvind Singhania Yes that is right.

Pritesh Chheda **And** this whole speciality polymers what kind of capacity that we have today?

Arvind Singhania We have about 20,000-25,000 tons. It is very difficult to give an exact capacity because each product has a different cycle time for production, so depending on what product mix we are doing but ballpark we can say about 20,000 to 25,000 tons is what we can do with our current capacity per year.

Pritesh Chheda Can you give some idea on the volume scale up that is possible in this part of the business over the next two years and these two products which you are highlighting what is the potential?

Arvind Singhania Well the potential for the stain resistant product is between 10,000 to 14,000 tons per year which we are targeting over the next 4 to 5 years to be able to reach. The hot fill only one customer has given us a potential for himself of 10,000 tons per year over the next 3 to 4 years.

Pritesh Chheda What is the realizations in this product line?

Arvind Singhania The stain resistant is being sold about \$ 5600 per ton.

Pritesh Chheda \$ 5600 per ton is about Rs. 350 product line.

Pradeep Kumar At the current rate more than that.

Arvind Singhania A little over Rs. 400 a kilo.

Pritesh Chheda **And what about** Hot fill?

Arvind Singhania And the hot fill is being sold at about \$ 3000 a ton so about Rs. 200 a kilo.

Pritesh Chheda Actually the value addition in stain resistant over polyester is substantial?

Arvind Singhania Yes.

Pritesh Chheda Which means that your hot fill margins have to be slightly better than the engineering plastics margins?

Arvind Singhania There is no comparison. It is completely different application engineering plastics business is totally different to speciality polymers.

Pritesh Chheda I am looking from the value addition and the margin perspective, so value addition over the base polymer.

Arvind Singhania See base polymer again for the engineering plastics business the base polymers are totally different. There we are working with things like PBT, nylon 6, nylon 66, poly carbon, now we don't make these polymers we buy these polymers. In the speciality polymer business they are basically polyesters which we are modifying or

we are making modified polyester, co-polyesters using technology which has been developed in-house for specific applications, so these two businesses are very different.

- Pritesh Chheda** Ok lastly, can you just give the value addition over base polymer if possible?
- Arvind Singhania** Which polymers?
- Pritesh Chheda** The value addition over base polymer in case of hot fills?
- Arvind Singhania** In engineering plastics?
- Pritesh Chheda** In case of hot fills.
- Arvind Singhania** Hot-fill, I told you the price we are selling at about \$ 3 a kilo, \$ 3000 a ton. And the raw material cost around Rs. 75-80.
- Pritesh Chheda** So 2.5 x.
- Arvind Singhania** Little more than 2 x is the gross value add.
- Pritesh Chheda** If you have to reach 10,000 to 14,000 tons in stain resistant and let us say 10,000 tons in hot fill what needs to be done? What are the key milestones if you could tell us which will make you achieve this 10,000-14,000 tons in stain resistant and 10,000 tons in hot fill whether it is with respect to product, client, time delivery, capacities whatever?
- Arvind Singhania** Now as far as the stain resistant product is concerned the total available potential for this product is between 10,000 to 14,000 tons per year, not more than that and this takes into account all the customers that we know of. So here it is just going to be a question of business development and marketing where we take our products and we are already doing it with two customers and now Americhem is doing it with the smaller verticals, Universal is doing for the non-verticals, so it is just a question of introducing this product to customer by customer and getting their acceptance and then building volumes and we will continue to grow that over the next years. As far as the hot fill is concerned there the story is a little different, we are talking about 10,000 tons that is the guidance given only by one customer, so we are now getting our business development team more active to introduce this product with various other customers, there are maybe 10-15-20 customers in Europe and America who would be interested in this and that we are going to start our business development activity, so actually the potential for a hot fill overall could be much larger than 10,000 tons going ahead. This 10,000 tons is the guidance and number given by one customer of ours who said who can take the volume up to this level over the next 3 to 4 years.
- Pritesh Chheda** What kind of supplies you are doing on hot fill to that customer as of now?
- Arvind Singhania** We did about 200 tons last quarter.
- Pritesh Chheda** When is this supply, 200 tons since?
- Arvind Singhania** Last quarter and this quarter again.
- Pritesh Chheda** So you started about 2-3 quarters back?

Arvind Singhania Yes, I told you in the first nine months we did about 147 tons and we expect to do about 200 tons in this quarter.

Pritesh Chheda So with this customer you are reasonably sure to reach 10,000 tons, at least this one customer?

Arvind Singhania This is the number that he has said is what he can reach over the next 3 to 4 years. I am certain that if not 10,000 tons certainly a number close to that over the next 3 to 4 years is possible with the customer.

Pritesh Chheda In stain resistant are the customers in place?

Arvind Singhania One customer very large is already in place, it's not the question of building up volumes with him also. See, in carpet also it is not that if one customer approves it then he will give me the full potential immediately. In carpet business they have lot of product lines, in residential, commercial carpets. Within each residential and commercial they have many product lines so they introduce it product line by product line, it is not possible for them to start using our master batch across all product lines immediately so that is the reason you take time to ramp up.

Moderator The next question is from the line of Sanjeev Jain from AUM Capital..

Sanjeev Jain My question belongs to your investment front, in the year 2014 your company invested on Jagran Production Ltd around 10 lakh shares bought and on 30th March 2015 you sold on 0.35 paisa the buying price Rs 5.18. Now this year also on June 11th, 2015 you bought around 3 lakh shares at an average price of Rs 29.27 and now the CMP of Purshottam Investofin Ltd is Rs 6.70 so here you are again suffering a loss of Rs 67 lakhs around, may I know what is the logic in such investment and what is the provisioning regarding this?

Pradeep Kumar There was an investment made for which the provision was created in the quarter ended September 2015 but during the quarter ended December 2015 we have sold off these investments by way of an agreement with an investor and these have been sold at a profit. So the provisioning that we did in the September quarter has been reversed and converted into a profit of about Rs 12 lakhs during the quarter.

Sanjeev Jain What is the provisioning regarding this current investment?

Pradeep Kumar I am talking of the current investment only that has been sold in the December quarter at a profit, the provision has been reversed and we have made a profit of about Rs 12 lakhs over and above.

Sanjeev Jain This share has been sold?

Pradeep Kumar Yes. December 2015 results take into account the reversal of the provision and a profit of about Rs 12 lakhs on the sale.

Sanjeev Jain At which price you sold your investment?

Pradeep Kumar It was sold at a profit of about 4-5% in both the shares.

Sanjeev Jain The second thing is, your Vettel International Limited hold 2 crore shares which is around 25% of your equity. May I know who is this Vettel International Limited and what is the lock in period of this shares?

Arvind Singhania Vettel International is owned by Mr. Kumar Sambhaw Ladha. He is a non-resident Indian based in Thailand; he belongs to the Indo Rama group of Thailand. He belongs to that group and it is Mr. Kumar Sambhaw Ladha company and he is the investor and the lock in period will finish in end of July.

Sanjeev Jain My concern is there only like after July if they want to exit in your company then what will happen like around 25% equity he holds so is there any talk with them or any planning for that?

Arvind Singhania Well we brought them in as a strategic investor and they have really been very active in the success of our speciality polymer business, they came in as a strategic investor and I do not think that they have a short-term view on our stock.

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

Sachin Kasera For these two products you have indicated that the demand potential for carpet yarn is 10,000 to 14,000 or at least 10,000, you also mentioned that you have done close to around 400 tons in the nine months for the current financial year. You have any sense or visibility on what is the number you are talking for FY 17 is it more like 2000 to 3000 tons each or will the scale up take a little time, we see the larger volumes coming only from FY 18-19 onwards?

Arvind Singhania Well we see a much larger volume coming in FY 17 itself from both the products. What we will finish FY 16 we will see multiples of those volumes in FY 17.

Sachin Kasera Maybe close to 2000 ton is a fair assumption?

Arvind Singhania The stain resistant product could be in the 1300-1500-1700 range and the hot fill would be in the 1000+/- range.

Sachin Kasera So combined close to around 2,500 to 3,000 the ballpark compared to around 600 tons that we do in the current year?

Arvind Singhania This year we will do about 700 to 750 tons.

Sachin Kasera The engineering plastic business the topline de-growth is purely explained by the crash in the prices, right?

Arvind Singhania A lot of it was because of reduction in raw material prices but a lot of our engineering plastics business is in the optical cable fiber business. This is the tender based business and it depends on the BBNL tender, so whole this BBNL tender got delayed which was expected, we had a fantastic year the year before but the BBNL tender got delayed and now it is coming under the new government of India scheme, Bharat Network. We expect that revival to take place in this year and we expect the optical fiber business to do very well in FY 17 going forward for next 2 to 3 years.

Sachin Kasera One last question on the speciality polymer business, when your customers start asking for larger order we are not facing any stabilization issues producing these quantities on a much larger scale, all that is figured out, right?

Arvind Singhania Yes, that's figured out.

Sachin Kasera It is only about them giving us the order then we are ramping up production and sending it across?

Arvind Singhania Exactly. Now there is no issue, we have done it multiple times. We have taken 200 tons runs now 2 or 3 times for both these products so that is a large enough run and now if we just want to produce more we just have to continue the run for many more days so the ramp up and scale up pains are already taken care of.

Sachin Kasera Excluding these two products the other products that you have in the pipeline what is going to be the ramp up of them in FY 17?

Arvind Singhania Overall we expect our total speciality polymer business to almost be 2-2.5 times more than our FY 16 volume.

Moderator The next question is from the line of Alok Rawat from Karma Capital..

Alok Rawat What was the volumes scheduled for all three divisions, engineering plastics and the specialty polymers during the third quarter?

Pradeep Kumar Engineering plastics there are two product lines, compounds and for OFC grade, in nine months ended December '15 we have done 6,000 tons in compounds and 2,000 tons in OFC grade.

Alok Rawat For films business?

Pradeep Kumar Films business in the nine months ended December '15 we have done 36,000 tons, both variants put together, plain and metallized film.

Alok Rawat What was the quantum of inventory valuation loss during the quarter ended December?

Pradeep Kumar In the nine months ended December we have the inventory valuation losses of close to Rs 3.5-4 crore, in the December quarter it was about Rs 1.3 crore.

Alok Rawat If you can talk about how the domestic both overseas and domestic film market is appearing right now, has the competition stabilized and what is your sense as we head into FY 17?

Arvind Singhania First half of FY 16 the film market was good domestically at least not so much in export but in the second half the film market has come under a lot of pressure and like I said before we expect the next 2 to 3 quarters to be under pressure in polyester films.

Alok Rawat Similar outlook would apply for overseas as well?

Arvind Singhania Yes. Because it is now a global market so there are really no borders.

Alok Rawat Has import pressure is also increased during the last few months or it is more or less the same in the film space?

Arvind Singhania In fact the import pressure has come down because the margins in domestic market had dropped so the import pressures have actually come down.

Alok Rawat If you could just give us some color on the difference in margins in the speciality films versus the ordinary films?

Arvind Singhania That is quite substantial I mean I would say the difference in contribution margins could be anywhere between 3 to 8 times over plain commodity films.

Alok Rawat Any scope for reduction in fuel cost now that the overall commodity price has seen such a decline, is that something that you see a good benefit coming in the next 2 to 3 quarters?

Pradeep Kumar In the December quarter itself our power and fuel expenses were lower than the previous quarter because of reduction in the prices of furnace oil and also in the prices of rice husk, the biomass that we use for generation of heat) and steam, so the prices have reduced which is going to reduce our power and fuel cost.

Alok Rawat We can expect some small further reductions in the March quarter as well?

Arvind Singhania I think that largely depends on the price of crude. As far as the furnace oil is concerned it is directly related to the price of crude.

Pradeep Kumar In the December quarter we had the benefit for one and half months and last quarter we would have this benefit for three months so definitely as compared to December there would be a reduction.

Alok Rawat What is the mix between in terms of cost between husk and the furnace oil?

Pradeep Kumar Husk we use close to 4,500 tons per month which is about Rs 1.3 crore per month so Rs 15 crores is the spend on the husk. Furnace oil we use only for power generation for about 25 lakh units a month the spend is about close to Rs. 1 crore a month, Rs. 12 crore a year so the husk and the furnace oil put together Rs 25-27 crore a year.

Moderator The next question is the line of Mohammed Rafiq from CA Technologies.

Mohammed Rafiq As you are in a transition period when do you expect the topline to go up sequentially, I know it is a little difficult to predict but which quarter or which financial year do you see this topline growing sequentially or when do you will see this stabilization happening in terms of numbers?

Arvind Singhania First of all to answer that question correctly I must give you a little bit background for the reduction in our topline. The topline reduction basically happened on two accounts, first of all we used to sell a film grade polyester chips in the market, pretty large volume in the last year that was a very marginal business which actually gave us almost nothing in terms of margin may be Rs. 1 or Rs. 2 a kilo and that was not a viable business so we stopped doing that business. A large reduction came in the topline because we stopped selling polyester chips because in any case it was not adding to the bottom line.

Pradeep Kumar 100% of the reduction can be attributed to chips reduction.

Arvind Singhania And a little bit came because of the reduction in raw material prices, so the number that you see now as far as the topline is concerned you will see a growth coming in the topline.

Mohammed Rafiq Do you foresee any further inventory valuation losses going forward Q4 and probably rolling over to the next year?

Arvind Singhania I think that's a question we have to ask OPEC where they will take the price of crude. It depends on that. But given the conventional wisdom crude being around \$ 30 a barrel what we understand from the experts, we don't see a large downside of crude prices from here. I mean it could go to \$ 25 a barrel. We are not experts in predicting crude prices and we only go by the conventional wisdom and the reports that we read from the experts. So we don't see a very large downside from this point on in terms of reduction or inventory losses.

Pradeep Kumar On the sales side let me add in specialty polymer, in film and engineering plastic compound we have gained volumes over the corresponding nine months for the financial of 2015. The reduction has been purely on account of OFC grade and chips.

Arvind Singhania Hence on you can expect to see increase in the topline.

Mohammed Rafiq Q3 we missed out because of the finance cost I guess. What I saw was at the end of H1 the long-term debt was Rs 107 crore, where does it stand now and how do you see this closing out in the next 2-3 years?

Pradeep Kumar You are not adding the instalments to the term debt, so if you add the instalments to the term debt, on 31st March 2015 including the instalments our that were due which is falling 12 months, it was Rs 168 crore. It had on 30th September reduced to Rs 135 crore because of the repayments that we have made.

Mohammed Rafiq How do we see we closing out Q4? Do we expect a positive on the net level?

Arvind Singhania Q4, like I said, film is going to remain under pressure for the next 2 or 3 quarter, so we don't expect a great improvement in terms of net bottom.

Mohammed Rafiq Since you have spent quite some time and resources including finances in developing niche technology and products which again gives you right to some exclusive patents which I am sure you will be using it for yourself but do you foresee leasing out or selling few of the patents which you think you have developed but may not necessarily commercialize, do you see some kind of revenue coming out on that front?

Arvind Singhania Not for the time being. All the patents that we have filed we intend to produce the products ourselves.

Moderator The next question is from the line of Kashyap Jhaveri from Capital 72 Advisors.

Kashyap Jhaveri You mentioned that the selling price for hot-fill is roughly about Rs. 375 a kg. Stain resistance is about Rs. 375 a kg.

Arvind Singhania About Rs. 374 a kg for stain resistance.

Kashyap Jhaveri For hot-fill that's roughly about Rs. 200 a kg.

Arvind Singhania Yes.

Kashyap Jhaveri Now if I look at your 9M turnover of about Rs. 48 crore and your 9M volumes totaling speciality polymers of about 2500 tons that barely comes to about Rs. 19,000 a ton whereas these two products themselves are roughly upwards of about Rs. 2 lakh a ton. So should one assume that other products which form about 2100 tons of speciality polymers the selling price would be probably almost about 5% of these two products? They would not be very expensive products? Would that be a right assumption?

Arvind Singhania Let me put it this way, the stain resistance product is the highest priced product in our stable that sells at about Rs. 400 a kilo. Our hot-fill product sells at about Rs. 200 a kilo, the rest of the products are less than Rs. 200 a kilo.

Kashyap Jhaveri I guess my mistake in calculations I have just corrected it.

Moderator The next question is from the line of Nidhi Agarwal from ShareKhan.

Nidhi Agarwal Is there any extraordinary item in polyester film in this quarter because margin is almost half and whereas inventory loss is just Rs 1.3 crore, so is there any other item as well?

Arvind Singhania No, it's just margin reduction. There is no extraordinary item.

Nidhi Agarwal Since our polyester film is under pressure would we see some more quarters making losses?

Arvind Singhania The polyester film business like I said is going to be under pressure for the next 2 to 3 quarters that's what we foresee but our speciality polymer business is going to continue to improve. It may not happen every quarter-on-quarter so we are not really a quarter-on-quarter company. What I am trying to say is that over the next year to 18 months we will reach that inflexion point where our speciality polymer business will have grown to a critical mass where even if the polyester film remains under pressure we will still see a very healthy bottom-line and will continue to improve year after year.

Nidhi Agarwal So FY 17 looks better than FY 16.

Arvind Singhania For sure.

Nidhi Agarwal Any update on the granting of any patents?

Arvind Singhania There are two incremental patents that we have filed in Q3.

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

Arvind Singhania Thank you very much ladies and gentlemen for participating in the Q3 earnings call. We really appreciate your presence and asking the questions and rest assured that the management is doing its best to fulfil the expectations of the investor and analyst community and the investors at large. Thank you very much.