Ester Industries Limited

Q1 FY22 Earnings Conference Call
August 11, 2021

Moderator: Ladies and gentlemen, good day and welcome to Ester Industries Limited Q1 FY22 Earnings Conference Call. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Gavin Desa of CDR India. Thank you, and over to you, sir.

Gavin Desa: Thank you. Good day everyone and a warm welcome to Ester Industries Q1 FY22 analyst and investor conference call. We have with us today Mr. Arvind Singhania – the Chairman and Mr. Pradeep Kumar Rustagi – the Chief Financial Officer. We will begin this call with opening remarks from the management, following which we will have the floor open for an interactive Q&A session.

Before we begin, I would like to point out that some statements made in today's discussions may be forward-looking in nature and a note to this effect was sent to you in the invite earlier. We trust you had a chance to go through the documents on financial performance.

I would now like to invite Mr. Singhania to make his opening remarks. Over to you Arvind.

Arvind Singhania: Thanks Gavin. Thank you everyone for joining us today. I hope all of you and your loved ones are safe and healthy. As mentioned by Gavin I have alongside me Mr. Pradeep Rustagi – our CFO. I will start the call with brief overview of all our businesses, post which Pradeep will walk you through our financial performance for the quarter.

We are delighted with the start we have made to FY22. For the quarter under review revenue and profitability grew 69% and 28% respectively over the previous year on the back of improved performance from specialty polymer and engineering plastic SBUs. As indicated in previous calls we expect specialty polymer to perform well during the year and Q1 has offered a glimpse of what's in store for the business. The strong performance of specialty polymer was well supported by the performance of our other two businesses namely polyester film and engineering plastics. Film business continue to maintain its recent growth momentum with volumes remaining elevated. Engineering plastics after undergoing challenging few years has made a sharp rebound. Performance of engineering plastics business has been unprecedented since the last three quarters.

Let me now move on to the individual businesses starting with specialty polymers:

The business has performed exceptionally well during the quarter on the back of increasing demand for our products. As I've been indicating last year's performance was not a true reflection on the business's potential as pandemic led disruptions impacted both operations as well as supplies. Lockdown enforcement across our key markets and logistical challenges disrupted the growth momentum registered during FY20. Product off-take of our key product MB-03 which finds application in the commercial carpet segment was severely impacted given the lockdown. However, we knew it was a temporary phenomenon and we were always confident that as the situation normalized volumes too will. We started witnessing pickup in the volumes towards the end of last year itself, especially in the last quarter following the resumption of trading and commercial activities globally which gave us the belief and confidence of delivering a strong performance during FY22. Innovative PBT volumes too continue to be strong. Most of you are aware we supply innovative PBT to global chemical leader. We have been consistently selling higher than agreed volumes over the past 2 years. We believe a similar trend will continue during the current and following years as well. We exported 344 metric tons during the quarter under review as against 311 during the corresponding quarter last year. Furthermore, the other positive development for us has been the commencement of commercial sales of MB-07. MB-07 is added to make polyester dyeable with deeper and darker colors. We finally received the customer approval after working at it diligently for the past 3 years. Volumes have been good and we expect to scale them up consistently in coming years. Apart from MB-07 we have also achieved techno commercial qualification for another product namely LMC-03. We are very close to achieving techno commercial qualification for other innovative product MB-16. While we expect the volume for LMC-03 to pick up significantly over the next 2 to 3 years, we expect commercial sales of MB-16 to start during FY21-22.

Encouraged by the growing demand for certain high margin grades of specialty polymers the board of directors in their meeting held on 9th August, 2021 have approved capacity expansion of specialty polymers at the cost of Rs. 80 crore. We have been continuously working towards building a comprehensive product portfolio to lower our dependence on particular product and are happy with the way things are shaping up in this regard. We are confident of achieving our stated objective in coming years.

Moving on to the film business:

Q1 maintained the recent growth momentum in volumetric terms. Besides benign realization, higher proportion of chip sale that has very low margin contributed to lower margin percentage of the segment. Domestic demand as I've been saying remained strong growing at about 11% to 13% annually with FMCG being the key user industry. Long-term prospects of the business remain strong though in the near-term realizations/margins may remain under pressure owing to the incremental supply that has and is expected to hit the market.

Moving on to the quarterly performance of film SBU:

We registered a revenue growth of 40% over the previous year largely owing to higher volumes and chip sales. Margins though softened a bit during the quarter despite reporting a healthy top-line growth. The main reason for margin compression is commissioning of two new production lines overseas. Another reason having impact in the short term is input cost pressure on smaller packs for snack foods. Our efforts in recent years have been directed towards improving the share of high margin value added products in line with the objective of de-commoditizing the business. The share of value-added products during the quarter stood at 20% as against 17% during FY21. We have been guiding our efforts toward increasing the share of the high margin products for 25% to 30% and believe we are very much on track towards achieving our objective.

A quick word on our new plant at Telangana before I move on to engineering plastics business; as we are setting up a new greenfield unit at 48,000 tons per annum state-of-the-art plant in Telangana through our wholly owned subsidiary at the cost of Rs.586 crore. We expect the plant to be commissioned on time by October 2022. The new unit post-completion is expected to deliver incremental revenues of Rs. 500 to Rs.600 crore and generate additional EBITDA of Rs.110 to Rs.120 crore. The funding for the project is secured. It will have a debt component of Rs. 410 crore with the remaining Rs.176 crore being internally funded through equity investment. Of the Rs.410 crore about Rs. 240 crore will be Euro denominated loan at less than 2% all-in costs along with Rs. 170 crore being secured at 8% to 8.5%. Total cost of the debt for the project would be in the range of 5.5% to 6%. We believe the new unit will help us better serve our customers besides adding to the overall growth of the company.

Moving on to our engineering plastics business:

Performance during the quarter was impacted by the second wave of the pandemic resulting in lower volumes and revenue for the quarter though EBIT in absolute terms during the quarter remained quite steady. However, we have seen sales volume pick up base again following lockdown relaxation and recommencement of commercial activities. FY21 if you recall had been a stellar year for this business on the back of strong demand from the end-user industry and rising trend of base polymer prices. Furthermore, we are also working towards our product mix in the business and operational efficiencies which has starting to deliver the results. With relocation we expect further improvement in the business as relocating the unit will help us better serve the customers and cut down on logistical expenses, both of which would help it further improving profitability of the business. We are making an investment towards relocation and setting up of a new extruder to meet our customer's requirement in light of improving demand.

To conclude:

I would just like to state that our recent performances demonstrate the structural shift in our business from being a commodity independent business in the past to a specialty dominant business. We have significantly altered the margin and profitability profile of the business. All the three businesses have innate strengths and growth levers which will help us sustain this recent momentum. Specialty polymer being largely IP protected business eliminates any competitive threat. Furthermore, being an innovation driven business, it has high switching costs for the customers and therefore ensures customer retention and commands high margins. In films our endeavor is towards improving the product mix with a focus on increasing the share of high margin products which will ensure better quality of growth. Our engineering plastics business has a strong tailwind and here too we are working towards improving the product mix. Expansion of capacity by installing a new extruder and relocation of the unit will further improve the business economics. That concludes my opening remarks.

I now hand over the floor to Pradeep to walk you through our financial performance. Thank you.

Pradeep Rustagi: Good afternoon everyone and thank you for joining us today. I'll quickly walk you through our financial performance for the quarter ended June 30th post which we can begin the Q&A session.

Starting with the top line; revenues from operations stood at Rs. 319 crore as against Rs.189 crore reported during Q1 FY21, higher by 69%. The performance could have been even better but for the second wave of pandemic which disrupted activities during early part of the quarter. Having said that all our businesses performed well with a strong rebound in sales and profitability witnessed by Specialty Polymer business. EBITDA for the quarter stood at Rs. 64 crore as against Rs.52 crore generated during Q1 FY21 higher by 23%. Margins though contracted in Film business during the quarter owing to commissioning of new capacities in overseas market and input cost pressure on smaller packs impacting demand in the short-term. A strong performance by Specialty Polymer SBU and in Engineering Plastic SBU ensure that financial performance of company turns out to be better than corresponding quarter last year. Finance cost for the quarter stood at Rs. 4.94 crore, that is 1.55% of the revenue from operations. As of June 30th, '21, our outstanding interest-bearing term debt, net of free cash stood at Rs. 167 crore while interest-bearing working capital liabilities stood at Rs. 31 crore. Interest bearing debt net of free cash as a multiple of annualized EBITDA remained at a healthy level of 0.65x as of 30th June '21. We are committed towards maintaining better than prudent debt equity levels. And will continue to take steps to ensure that no undue pressure is exerted on our balance sheet.

Depreciation for the quarter stood at Rs. 9.21 crore as against Rs. 8.83 crore reported during Q1 FY21. Profit for the quarter stood at Rs. 38 crore as against Rs. 29 crore generated during Q1 FY21 that is higher by 28%. To conclude, I would just like to reiterate that we are confident of all our businesses delivering consistent growth going forward. The last couple of years have demonstrated the true potential of all businesses and is vindication of our strategy towards moving away from commoditized business and shifting towards the Specialty side.

All our businesses are well-positioned to deliver a strong consistent growth over the coming years and create value for our shareholders. Thank you.

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

Saket Kapoor: Firstly, if you could give some more color on our putting CAPEX for the Specialty Polymer part of the story. What are the inroads that we have, what made us to go for this expansion at this stage and give some more color on the same?

Arvind Singhania: The Specialty Polymer business has rebounded very well after being hit by pandemic last year. We had only Rs.55 crore of revenue compared to Rs.76 crore in the year before but there has been a very strong rebound in all our products. MB-03 has almost come back to normal. Our Specialty PBT, Innovative PBT volumes are growing year-on-year. The biggest thing that we achieved was commercialization of MB-07. Now MB-07 actually has come as a very pleasant surprise for us. We were only expecting to do about 700-800 tons in the current financial year and another 700-800 tons, you were expecting it to be added next year. But I think with God's grace and luck we have managed to start doing 150 tons a month which is 1,800 tons a year, currently, our current run rate. Suddenly there is a lot of pressure on our production capacity. And let me explain to you and I know there is a confusion with the investors and analysts that why we are putting up capacity when you already have spare capacity. We do have some spare capacity but that is in the big line which is about 2,000 tons per month. That big line cannot cater to the smaller volumes of

Specialty Polymer that only small lines can cater to that. We have only two small lines. Now these are almost running absolutely at 100% flat-out capacity. We need another small line to start being able to service the smaller volumes. The large volume will come into play when let us say product like LMC-03 starts touching 5,000 to 10,000 tons per year. That is when we will start using the bigger line for that. But in the meanwhile, we need new capacity to cater to the demand for our other products. It is absolutely imperative, if demand will increase, we will have to put new capacity. We have some spare capacity but that is in the big line which cannot be utilized until the volumes grow very large for one single product.

Saket Kapoor: Here we don't have competition also. No competition from any side?

Arvind Singhania: No competition, where is the competition in this. All my products are patented. If demand will come and I don't put new capacity then how will I service? This is a good thing that we are putting new because there is demand.

Saket Kapoor: You are explaining that it is the design of the plant and the lines that has required this type of CAPEX in a smaller way?

Arvind Singhania: Correct. We have two small lines, they are in flat-out and are running in full capacity, we are now feeling the shortage.

Saket Kapoor: The 150 tons that we are speaking of this month, till when do you have the visibility?

Arvind Singhania: This will go on. Visibility is infinite.

Saket Kapoor: You were explaining earlier that we were targeting X% and now that has risen by an X%. 150 ton per month visibility we have it for a year time. We can execute, we have that much order visibility and their requirement from the customer?

Arvind Singhania: I have 4-5 months order already in hands and I am telling you, I am making a very clear-cut statement. Here we don't have any visibility problem, there will be continuous business in future too, for next years.

Saket Kapoor: This has, major to do about this flooring part? The flooring part of the theory that…? I am talking about this flooring business about the, that is carpet flooring and all, these are the main buyer of the product?

Arvind Singhania: Yes, carpet industry is the main buyer for this product.

Saket Kapoor: Now if I come to your main business if I may call so the Film part. Here what are the key challenges currently? I was listening to one of the players I am not known whether they are your peer comparison or not. I am talking about Xpro Industry. There in the management was somewhat sounding very cautious that the demand we are seeing now, that is not from consumers side, because of this supply side constraints are there and this may plateau out going forward?

Arvind Singhania: Xpro is not my competitor then we are not in the same field of business. I don't know what they do but they do not make polyester film or even polypropylene film if I am not mistaken.

I cannot comment on what Xpro is saying but the demand for polyester film will remain strong. The only challenges the new capacities which are coming up they will put pressure on the margins. Any case the last year margins that we got were unprecedented and I have always maintained that those kinds of margins are unsustainable. Last year we had reached till Rs. 70-75, that is unrealistic margins. These margins have already tapered down, have been muted and going forward they will remain at reasonable levels. They will not go back to those levels that we saw last year. Please understand one thing, demand is growing in India, demand is growing globally so volume growth is going to happen.

Moderator: The next question is from the line of Sachin Kasera from Svan Investment.

Sachin Kasera: Just taking this previous query that was being asked regarding this new line in polyester film. Is it not that as you mentioned that there's some capacity is also coming up and there is lot of capacity hits the market and we are doing a very large expansion? We could be in a scenario where margins could come under pressure and once again the debt would go up and that could again create some financial stress for the company's balance sheet. If you could comment on that?

Arvind Singhania: See, we are putting new capacity, demand is increasing. There is no doubt. In between when there is a bunching of small capacities so then margins can come under pressure. But our debt profile is very solid. There is no debt burden that we cannot manage. Today total debt of our company is Rs. 160-170 crore in Ester. And the debt that we have taken in the subsidiary is a very low-cost debt. Total cost of debt will be 5%. So even if I see overall, the total debt is absolutely manageable even in the worst of circumstances.

Sachin Kasera: What is your sense? What will be the peak debt on a consol basis you will end up having post this CAPEX?

Arvind Singhania: Say about Rs.500 to Rs.550 crore.

Sachin Kasera: Secondly, we keep nowadays listening that most of the Polyester Film guys including you are trying to increase the share of value-added products in the overall Polyester Film basket. Where are we in that journey? And secondly how do we see that mix 2 to 3 years from now when the new line comes up?

Arvind Singhania: I have been saying that we are and we are doing this very successfully. Last year we did 17%, now we are near to 20%-21% and our target is to reach about 30%. We have a clear-cut path and a plan in place to make that happen. That will de-commoditize and de-cyclize the Polyester Film business to certain extent.

Sachin Kasera: But that is on the existing capacity or you think you can sustain this 30% because you have a large chunk of capacity with the new plant coming up. Once the new plant comes up, will this 30% again go down or you think with the new plant the way you design some of the new products, even you will be able to sustain this 30% even the medium term?

Arvind Singhania: No, 30% is based on Ester Industry's capacity right now. When the new capacity comes up this percentage will drop but will again start picking up once the value added it starts there as well.

Sachin Kasera: In the new line, what is your sense? How long will it take you to reach 25%-30% share of value-added?

Arvind Singhania: I think 2 years.

Sachin Kasera: Secondly, on this Engineering Plastic. We have seen some significant improvement in profitability after long period of time. One, what is driving this? And secondly is this sustainable? And if yes then are we also looking in terms of any expansion on Engineering Plastic business?

Arvind Singhania: We are relocating the business from Khatima in the North to a new location in Gujarat. This is being done because this will save a lot of cost on logistics. Efficiencies will go up. In any case we were falling short of space. In the new unit we are expanding with one extruder with an additional capacity of 10,000 to 12,000 tons because our demand has increased. We are running absolutely flat-out. We don't have any spare capacity; we have demand but we don't have capacity.

Pradeep Rustagi: We are rather using job workers to do the volume for us.

Arvind Singhania: A little bit, you are absolutely right. We are getting some jobs work done outside because we don't have our own capacity. The demand is very strong from the downstream industry and we expect the business to do well in the coming quarters.

Sachin Kasera: What has caused a significant improvement in profitability of this business? And is it sustainable this type of profitability in the medium-term? We can understand that there may be strong demand next one-two quarters but you think there's a structural shift that has happened? If we could dwell a more on understanding it basically?

Arvind Singhania: One thing is because of COVID the whole global logistics is disturbed, commodity prices have gone up tremendously high everywhere; whether it's steel, cement, polymer, chemicals everything the prices have shot up. This has also led to increase in prices and margins have improved tremendously. I am not saying that these kinds of margins will be sustained forever but we expect much better margins compared to the previous years.

Sachin Kasera: What do you think is the most sustainable margins for this business from a 2 to 3-year perspective?

Arvind Singhania: Earlier if you talked about 2 years ago, we used to be doing 5%-6% EBITDA margins. I think sustainable margins will be in the 13% to 15% range. Right now, margins are much higher.

Sachin Kasera: Yes, currently they are I think 25%-30% if I get it right.

Arvind Singhania: But eventually they will come to about 15%-16%, sustainable margin.

Sachin Kasera: Will we have to invest any major sum in terms of this relocation expansion of CAPEX in Engineering Plastic?

Arvind Singhania: About Rs.45 crore is being invested which has already been approved by the Board. I mean that happened 6 months ago. And that process is on and we will complete the relocation in the first or second quarter of next calendar.

Moderator: The next question is from the line of Shanti Patel from Shanti Patel Investment Advisors.

Shanti Patel: You told just now that the margins in respect of various verticals are little higher than what it should be, so what has the margins today and what you are expecting?

Arvind Singhania: As far as the film business is concerned, I have already said that the margins have come down compared to last year.

Shanti Patel: I agree, but what was in last year and what is today?

Pradeep Rustagi: As per the segmental results the EBIT margins for film business Q1 FY21 was 34% and in the Q1 FY20 is 18%.

Arvind Singhania: Correct you're absolutely right, going forward we expect this to be maintained at 18%. Let's say 16% to 18%. As far as the specialty polymer business is concerned the margins are fixed, so whatever happens the margins it's not a commodity business it's a technology business. So, whatever happens in this business margins are fixed. In this business we expect about 35% to 40% EBIT margins for time to come.

Shanti Patel: Is our utilization capacity is 100%?

Arvind Singhania: In film it is 100%, in engineering plastics it's 100%, in specialty polymers you cannot take the nameplate as a fixed number because of different products the capacity is different. In some products the batch cycle time is higher and in some it is less, for example we have some small lines they're running full capacity. It's only the big line which is running under capacity, as our volume of a single product increases, we will be shifted to the big line and that capacity utilization is also start increasing. So those go by capacity utilization in specialty polymer.

Shanti Patel: What is our market share in respect of various verticals in which we are?

Arvind Singhania: In film business we are at about 9% to 10% of the domestic market, in engineering plastics would be a similar number and there is no meaning of market share in specialty polymer, because we are not in competition with anybody.

Moderator: The next question is from the line of Ravi Nanda, an Individual Investor.

Ravi Nanda: Will you be able to achieve Rs.350 to Rs.400 crore revenue business in specialty polymer?

Arvind Singhania: No, we cannot. This year we can reach up to about Rs.130 to Rs.150 crore compared to Rs.55 crore last year and in next year there will be a substantial increase but Rs.350 to Rs.400 crore will take about 2 to 3 years.

Ravi Nanda: Can you throw some color on a new product LMC?

Arvind Singhania: LMC-03 has been completely qualified techno-commercial that means technically, commercially it is approved product. Now our customer is introducing the product based on LMC-03 into the market and they're introducing it into the market in January and slowly the ramp-up will start and very good volume indications have been given by the customer.

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

Pratap Makwana: I have four questions, while you are expanding well to match with the demand, can you throw some light on the improvisations to improvise the utility and energy conservation as per the regulation 134/3 which is happening into the ongoing plant and successful expansion? That is the first question. Second again a good part is that you highlighted year-on-year performance as per the feedback we have provided last time. Can you throw a light on the new product which is due for the testing for the post-engineered supposed to visit for the line testing? And third what is the EPS forecast for the upcoming quarter? And for the last question on that the dividend yield 190%, Rs. 1.9 which is due for September, do we feel that it's slightly less compared to the last year for couple of months?

Arvind Singhania: No, our dividend policy is very clear that up to 20% of profits will be distributed as dividends and we are maintaining that, so there is no deviation from the policy. As far as the energy conservation is concerned, I don't have specific numbers to give you right now because we were not expecting this question but energy conservation is an ongoing process with which goes on in our company on a regular basis. It doesn't stop ever, so energy conservation is an ongoing exercise. It goes on continuously because we try to save costs and in terms of energy and power and we look at various aspects of this on a regular basis and your fourth question on that?

Pratap Makwana: About that one-line testing was due on upcoming visit from the last June month or May month from the Austria engineer for the new line.

Arvind Singhania: Yes, that line has been commissioned. It will be commissioned this week. The man has come finally.

Pratap Makwana: I think hopefully the production can be realized or invoiced in this month itself?

Arvind Singhania: Towards the middle or end of this month we will start moving some volumes.

Pratap Makwana: I wanted to know about rise in the EPS, how much percentage for the next upcoming quarter?

Arvind Singhania: Let us see how things go, but I think we'll see some good numbers. I cannot give you the exact numbers.

Moderator: The next question is from the line of N.M. Modi, an Individual Investor.

N.M. Modi: My query was regarding the relocation of the plant which you are doing for engineering division, how much time it will take?

Arvind Singhania: We will complete the relocation by between March and June next year.

N.M. Modi: Will it require some downtime for the production?

Arvind Singhania: No, because we are starting up a brand-new extruder first in the new location and then we will start shifting the existing extruders, so there will be no loss of production or sales.

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

V. Surendra: My question is on engineering plastic business, recently you must have seen that the automotive industries and small appliances industries rising like anything expanding and I think that is it is the demand surge for engineering plastic. My question is, at present capacity of some 3,500 tons and again the new extruder you are building, the capacity goes to around 18,000 tons. What I want to say is that is this capacity, there may be demand will be more than our capacity.

Arvind Singhania: Right now, the demand is more than our capacity that's why we're putting in a new extruder.

V. Surendra: But what I'm asking is why aren't we expanding more capacity for may be about 30,000 tons or like that?

Arvind Singhania: First I've to create capacity to meet demand and at new capacity that we create will not get filled up on day one obviously it'll take time for it that extruder to fill up completely but I can't put a smaller extruder. I can't increase capacity in the same proportion as the demand is increasing.

Moderator: The next question is from the line of Shanti Patel from Shanti Patel Investments.

Shanti Patel: What is the proportion of our film turnover in the total turnover?

Arvind Singhania: The film is at about in the range of 70% to 75%.

Shanti Patel: As you told that our margins are going down is because of film, so effectively in future automatically the profit will go down overall?

Arvind Singhania: Yes, but it's been compensated by increasing specialty polymer and engineering plastics where the margins are high.

Shanti Patel: I agree with you but since the proportion of sales, so film is high, the impact will be also very high?

Arvind Singhania: Yes, it could be higher but again I'm saying we may not be able to make up the entire drop in film from these two products but a substantial portion will be made up.

Moderator: The next question is from the line of Rahul Nadkar, an Individual Investor.

Rahul Nadkar: On your polyester films the margins have reduced vis-à-vis last year which was anyways unsustainable as you had mentioned. But what were the spreads in your polyester film business in Q1 vis-à-vis what are they currently running at in July and early August?

Pradeep Rustagi: The 12-micron corona film, with value addition in first quarter June '21 was about Rs. 36 and currently we are at Rs. 40 a Kg.

Rahul Nadkar: Do we expect this to improve going forward?

Arvind Singhania: It will remain in the region of the current levels.

Pradeep Rustagi: It will remain range bound.

Rahul Nadkar: Do you expect any increase in volumes per se in your polyester film business?

Arvind Singhania: We are running at full capacity. I have no capacities; volumes cannot go up beyond what we are at. Now the volumes will really go up when a new line starts up next year.

Rahul Nadkar: In terms of your specialty polymer investment that you are making around Rs.90 crore when would that start commissioning and the revenues start flowing from there?

Arvind Singhania: That is going to happen in phases over the next 1 year and I think by September next year we will complete it. Our revenues will start flowing in proportionately there.

Rahul Nadkar: Any debt you are planning to raise towards that or it is from internal accruals?

Arvind Singhania: We'll raise some small debt for it, small portion of that will come from debt.

Moderator: The next question is from the line of Ashok shah from LFC securities.

Ashok Shah: So, my question is regarding the industry. What is the future of the industry, because currently the demand is more and production capacity is low? So, everybody is expanding, so can we expect next 2 years there will be demand and everything will be okay and again also on raw material side.

Arvind Singhania: Which product line are you talking about?

Ashok Shah: All the product lines which we are expanding?

Arvind Singhania: Polyester film all the three are completely different, so polyester film demand is growing capacities are coming in, in engineering plastics demand is growing not many capacities are coming in. We are expanding I'm not aware of any other major expansions coming in the engineering plastics fields. As far as specialty polymers is concerned there is no question of demand or supply. We are doing a specialty business. We have no competition in that business. There is no demand supply matrix that can be explained here.

Ashok Shah: How is raw material side, the price increase is expected to remain high?

Arvind Singhania: Well, I wish I had a clear-cut answer for that but only God knows.

Ashok Shah: In engineering plastic which are the industries which we will be catering?

Arvind Singhania: We largely cater to automotive, electrical and electronic industry these are the main sectors.

Ashok Shah: It will be related to ABS or some specialized plastic or what?

Arvind Singhania: No, not ABS, we are largely into PBT polyesters and Nylon, Nylon-6 and Nylon-66, we do very small amount of ABS.

Ashok Shah: We would be supplying carpet to them, auto industry carpet?

Arvind Singhania: No, engineering plastics has nothing to do with carpet business.

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

Saket Kapoor: If you could give how the raw material market has behave?

Arvind Singhania: Right now, it is steady for the last few months but there still the raw material remains very high and as I said before commodity prices across the globe across product lines have gone up tremendously. Commodities are running at very high pricing and impossible for us to predict how they will remain forward because they're dependent on so many things. I mean we are mainly dependent on crude because it's a petrochemical. So how crude prices will pan out I cannot say it's very difficult for me to predict.

Saket Kapoor: What were the price trends for this quarter for the raw material by basket?

Pradeep Rustagi: We will tell about PTA-MEG which is the largest the consumer quantity. June '21 quarter PTA was at about Rs. 61.60 and MEG was Rs. 55. Currently PTA is Rs. 68/ kg. and MEG at Rs. 58/Kg. So, per kg of film raw material cost in June quarter was 72, currently it is 78.

Saket Kapoor: And there is a pass on to that with a lag?

Arvind Singhania: Yes correct.

Saket Kapoor: If we take them the finance cost with the loan which we are taken and taken again what would be the annual cost on the finance and what would be the working capital requirement?

Arvind Singhania: So, the total finance cost as Pradeep has already reported as about 1.5%. It will remain under 2% going forward.

Moderator: The next question is from the line of Rahul Nadkar, an Individual Investor.

Rahul Nadkar: Just one question from my side, in terms of when you said in the last statement that the spreads were Rs. 36 and now its moves around Rs.40 that range, so with the 10% increase spread can we expect the absolute EBIT to improve by 10% will that be a fair assessment?

Pradeep Rustagi: Current margins are Rs. 40 but 1.5 month is still remaining in the quarter. We expect better performance in the next 1.5 months and therefore there could be some improvement in the margin in film business.

Rahul Nadkar: No, assuming it remains at Rs.40 and last quarter it was Rs.36 which is the 10% increase in spread, is it the right assessment to assume that the 10% increase in EBIT?

Pradeep Rustagi: Yes, currently the June quarter EBIT was about 18% in film. We can expect in the range of 18% to 20%.

Rahul Nadkar: And volumes remain be strong?

Arvind Singhania: Volumes will be almost same.

Rahul Nadkar: Any improvement in the value added vis-à-vis last quarter which we foresee for this quarter?

Arvind Singhania: It's going up on a sustained basis.

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

Arvind Singhania: Thank you everyone for attending the Q1 Earnings Call of Ester Industries. We look forward to welcoming you again for the Q2 Earnings Call. Thank you very much. Have a good day.