Ester Industries Limited

Q1 FY24 Earnings Conference Call
August 17, 2023

Moderator: Ladies and gentlemen, good day and welcome to Ester Industries Limited Q1 FY24 Earnings Conference Call.

As a reminder, all participant lines will be in listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Gavin Desa from CDR India. Thank you and over to you.

Gavin Desa: Thank you. Good day, everyone and a warm welcome to Ester Industries Q1 FY24 Analyst and Investor Conference Call. We have with us today Mr. Sourabh Agarwal - CFO and Mr. Girish Behal - Business Head. We will begin this call with opening remarks from the management, following which we will have the floor open for an interactive Q&A session.

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

I would now like to invite Sourabh Agarwal for opening remarks. Over to you, Sourabh.

Sourabh Agarwal: Thank you, Gavin, and thank you everyone for joining us today. I have alongside with me Mr. Girish Behal – Business Head of Ester Industries. I will briefly talk about the key business highlights post which I will walk you through our financial performance.

The overall business environment for both Films and Specialty Polymer remains challenging. Our quarterly performance is reflective of the stress prevailing across both the businesses. We have seen similar subdued performance reported by our peers as well for the quarter. Film business as we have been highlighting has seen sharp addition on the supply side following commissioning of new capacities which in turn has had an adverse impact on the realizations and profitability. As far as Specialty Polymers is concerned, that business as we have been articulating is largely IP protected and as such is not subject to any competitive risk. The primary reason for the slowdown in Specialty Polymer business has been the recessionary worries in the US economy, which in turn is percolating into slow demand.

Let me start with the headline numbers, on a standalone basis our revenues for the quarter stood at Rs.206 crore, with EBITDA of Rs.13 crore and loss for the quarter was Rs. 5 crores. The soft performance as mentioned earlier is reflective of the on-ground challenges both our businesses are grappling with – Film business as we have indicated in our earlier calls is witnessing higher supply following commissioning of new capacities. This coupled with muted demand in export markets has had an adverse impact on the realizations. Specialty Polymer business performance was impacted by recessionary concerns prevailing in US economy, major market for the business.

Moving on to individual businesses now, starting with Specialty Polymer – our performance for the quarter was largely on expected lines given the recessionary worries prevailing across US economy, the key market for the business. We have seen lower product off-take not only for our newly launched products but even our marquee products i.e. MB03 and Innovative PBT witnessed lower sales for the quarter. To quantify, Innovative PBT volumes during the quarter stood at 79 MT as against 485 MT, while the same for MB03 stood at 247 MT as against 403 MT. I would just like to reiterate that the sales moderation has nothing to do with competitive intensity given that most of our products are IP protected. As we mentioned in our Q4FY23 earnings call, we expect offtake to continue to be slow for the next couple of quarters, before reviving. Despite, the external challenges we remain committed towards leveraging our R&D capabilities and introducing newer and exciting products. We remain optimistic about the business' prospects over the medium to long term and are confident of tiding over the near-term challenges.

Moving on to our Film business, as we have been repeating in our earlier interactions, we have seen excess supply entering the market following commissioning of new units in bunches. While the demand is progressing at a steady pace, the supply has outgrown the demand which in turn has had a cascading effect on the realizations & margins. This coupled with muted demand in exports markets has further aggravated the profitability. Our overall volumes for the quarter stood at 18,221 MT comprising of 12,461 MT on a standalone basis and 5760 MT at our subsidiary level. The volumes would have been higher but for the plant shutdown undertaken during the quarter.While we expect the business to operate in a challenging environment in near term, we remain focused on our attempts towards lowering cost, enhancing efficiencies and improving our product mix by increasing the share of value-added products. We have invested in an off-line coater to increase the share of value-added products, which is expected to be commissioned soon. Build-up of volume from new coater will be achieved gradually and continuously. We are also working on new products that will enable us to improve profitability despite adverse market scenario. We believe such efforts will help us to deliver stable and profitable performance in the long term.

Let me now quickly walk you through our financial performance post which we can commence the Q&A session.

Starting with the revenues, on a standalone level, the same stood at Rs.206 crore as against Rs. 402 crore in corresponding quarter last year, lower by 49%. The reason for the de-growth pertains to non – availability of sales of Engineering Plastics as SBU was divested on 15th Sept 2022 (Rs. 78 Crore), the excess supply in the Films business and recessionary worries in US, the key market for our Specialty Polymer business. EBITDA for the quarter stood at Rs. 13 crore as against Rs.73 crore generated in Q1FY23, lower by 82%. EBIT contributed by Engineering Plastics SBU was Rs.11 Crores during Q1FY23. Lower margins in Film business coupled with adverse product mix for the quarter in Specialty Polymer business led to lower profitability and margins for the quarter. Loss for the quarter stood at Rs. 5 crores as against profit of Rs. 42 crores garnered in Q1FY23. Lower off-take coupled with weaker realizations / margins resulted in loss for the quarter.

Moving on to the performance of Ester Filmtech Limited our wholly owned subsidiary, revenues for the same stood at Rs. 64 crore with EBITDA loss of Rs. 3 crore for the quarter. As most of you must be aware, Ester Filmtech started its commercial operations during the last quarter wherein its registered revenues worth Rs. 49 crores with EBITDA loss of Rs. 10 crore. In terms of volumes, Q1FY24 generated 5,760 MT as against 4757 MT volumes generated in previous quarter. Volumes for Q1FY24 could have been even higher but for the plant shutdown we had to take during the quarter. EBITDA losses are largely owing to lower utilization level and the stress in the films business prevailing currently that has impacted margins. With time we are confident that Ester Filmtech will contribute positively to the overall growth of the business as the capacity utilization improves. As mentioned previously, the plant is expected to generate revenues worth approximately Rs.500 crore upon achieving optimal utilization.

It is important to mention that despite losses, EIL has liquidity in the form of investments in safe liquid financial instruments amounting to Rs. 142 Crore. As a result, net interest-bearing debt in the balance sheet of EIL as on 30th June 2023 is Rs. 209 Crore.

To conclude, I would just like to reiterate that, while the near-term outlook for both our businesses remain challenging, we remain optimistic and confident of tiding over the hurdles and scaling them to their true potential in the medium to long term.

That concludes my opening remarks, we can now commence the Q&A session.

Now, we can commence the Q&A session.

Moderator: Thank you very much. We have our first question from the line of Nitesh Dhoot from Dolat Capital.

Nitesh Dhoot: Sir my first question is on the plant shutdown, what was the reason for the shutdown? Was it a maintenance shutdown? And if you can quantify the volume impact that you had because of the shutdown?

Girish Behal: So this particular plant of our new investment in Telangana, which was commissioned in January and these kind of plant in the initial period have got certain stabilization period, so whatever the shutdown that we have ever had relating to the plant stabilization requirement, I think Sourabh has already mentioned the kind of volume that we have done in the last quarter. So that is a reflection of the volume loss of what we have got because this plant has a full-scale capacity when it runs to the full potential about 48,000 tons and we have I think done about 5,800 tons approximately volume in this quarter.

Nitesh Dhoot: My next question is on the Specialty Polymers, so there you have seen that it has been highly volatile in recent years, so what would explain the inconsistency there?

Sourabh Agarwal: Our primary market for Specialty Polymers is the US, so right now if you look, we are going through a recessionary phase in the US because of which our offtake for Specialty Polymers has taken a dip. As soon as the recessionary pressure in the US improves and there is a recovery in the market, we expect that our sale is also going to go up.

Moderator: We have our next question from the line of Saket Kapoor from Kapoor and Company.

Saket Kapoor: Sir, firstly, if you could give us the utilization level for our plant at Uttarakhand?

Sourabh Agarwal: I think we have already shared the numbers in terms of production, EFL utilization was around 50% and Ester Industries' utilization was around 90%.

Saket Kapoor: 90% you mentioned, right?

Sourabh Agarwal: Yes.

Saket Kapoor: Currently what should be the utilization levels for this September quarter? We are already two-third into it?

Sourabh Agarwal: For Ester Industries, we are expecting utilization to be above 90% and for our Ester Filmtech, we are expecting utilization anywhere between 50% to 70%, but obviously that is also dependent on many factors which is both external as well as internal.

Saket Kapoor: Sir how have the raw material prices shaped up for the last quarter? And what is the trend currently, if you could give me breakup of the mix also?

Sourabh Agarwal: Raw material prices have been remaining in range-bound manner. We have not seen much movement in the raw material prices.

Saket Kapoor: How has our realization shaped up and the margins for the Film for this quarter?

Sourabh Agarwal: As we have explained and if you see the segmental performance also our margins for Film business is around less than 2% for the quarter, which is just ended and in Specialty business, our margins was around 30%.

Saket Kapoor: Is the raw material mix that you provided us, then you mentioned about the debt number also, sir on a consolidated, what is our long-term debt and the working capital requirement and the cost of funds?

Sourabh Agarwal: We will give you total debt number, as on date our total debt is Rs. 650 crore approximately adjusted for our investment and our weighted average cost of borrowing in Ester Filmtech is roughly around 7% and in Ester Industries is roughly around 9%. But you will appreciate that these interest rates keep changing as far as there is a change in RBI policy.

Saket Kapoor: What are the current year maturities?

Sourabh Agarwal: In the current year, the total debt repayment is around Rs. 100 crore, out of which we have already repaid around the Rs. 52 crore.

Saket Kapoor: And for the new facility at Telangana, do we have any moratorium, or we will be repaying the debt from this year itself?

Sourabh Agarwal: So the numbers which I gave you were combined, the Rs. 100 crore repayment schedule includes Telangana also and the actual repayment is around Rs. 52 crore which I mentioned including Telangana also. Yes, there was a moratorium in the loans that we have taken for Telangana facility, but the business has already commenced operations, so the moratorium period is almost over and now the repayments are going to start, as we have already made our first repayment as in 30th June of 2023.

Saket Kapoor: At the net level, it is Rs. 660 crore for the consolidated entity?

Sourabh Agarwal: Yes, Rs. 650 crore consolidated including your working capital.

Saket Kapoor: Can you provide another mix for the raw materials price trends?

Sourabh Agarwal: See the raw material prices increase has almost remained in range bound manner. So price trend as I mentioned, it is in a range bound manner, it will be very difficult for me to quote any number here, but all I can say is that there is not much movement in the price between January to July.

Saket Kapoor: Earlier sir, it was the raw material mix that used to also define the trends for your realizations, if there was an increase in the raw material, it was a pass on to your customers and you realizations were maintained, but now do you think because of this over capacity or the new facilities coming online and it is taking time to get adjusted with the demand, do you think the realizations will remain under pressure even though the raw material prices have now normalized or are in a narrow brand?

Sourabh Agarwal: Yes, we feel that it will remain under pressure and the major reason for this is that there is excess supply in the market compared to the demand which is leading to this price pressure.

Saket Kapoor: Sir the value-added parts that you were mentioning something I missed your opening remarks in the valued added segment, what is the percentage of sales we have done for this quarter, last financial year and what should we end this year with?

Sourabh Agarwal: So in terms of value-added, in June quarter, we have done around 28% and if you mention about FY23, the value-added percentage is 22% and overall, we are targeting to remain in this area 20% to 30% on an overall basis for the full year.

Saket Kapoor: I missed your last point, your voice got muffled. What is the year-end target you have mentioned?

Sourabh Agarwal: 28% to 30%.

Saket Kapoor: The last point is, the Telangana facility has differentiated product than the one we have at Ester at Uttarakhand unit? Or the product lines are different for them? We are catering to different segments for the Telangana facility or are they aligned to similar product?

Sourabh Agarwal: They are aligned to similar product, but the only difference between Telangana and our Khatima Plant is that in Khatima we have a higher mix of value-added product, while in case of Telangana the facility is more focused towards commodity product and the only value-addition that we have is that we have a metallizer. But going forward in market the demand increase, we may look at options for enhancing the product mix with Telangana also.

Saket Kapoor: And one more point on the Specialty Polymer segment, sir, last quarter when we were addressing the investors, I think you correct me there, we were not looking at these kinds of volumes for this quarter, we were optimistic, so where is the trouble coming? And for the coming quarter, what kind of volumes are deliverables as scheduled?

Sourabh Agarwal: As a business, we are always optimistic and we always believe that the market is going to recover. However, optimism may not be 100% converted into reality, so when we close our March quarter we are very optimistic about our Specialty Films in the June quarter 1 of FY24, but the things did not turn out as per our expectation. However, we are hopeful that we are going to achieve maybe an approximate turnover from Rs. 200 crore on our Specialty Polymer in FY23-24 that is subject to recovery in the US, which we mentioned because US is our major country and our primary customer for this product.

Saket Kapoor: Is your understanding that the second quarter will be in line with what the first quarter has been, in the same the volume offtakes will be similar? Or do we see any improvement meaningful one?

Sourabh Agarwal: See again, it depends on lot of factors, and it also depends on a lot on market because the fundamental premise here is the supply demand gap, which is completely market driven. So while we are optimistic about second quarter, it is very difficult for me to give you any direction on the same. However, we believe that it will be marginally better than the quarter 1.

Saket Kapoor: And a small suggestion, sir when we are submitting our results on the exchanges, we must take note of the PDF files and the quality of print also for investors have a look themselves at the submission there?

Sourabh Agarwal: Yes, it is a common problem that you face and the major reason for this is that there signature is required from the auditor as well as the Chairman and there is a very minimum amount of time during which we need to do the filing, so because of double or triple scanning, the quality of the print is not good, but we have taken note of your point and we will try to ensure that you have a better quality of print, which is available and the numbers are clearly visible. Having said that, if you want a specific requirement, you can always reach out to us.

Saket Kapoor: We request also Mr. Rustagi and Mr. Singhania, any one of them to definitely be present on the call going forward.

Sourabh Agarwal: Yes, Mr. Rustagi was supposed to take this call, but unfortunately, he is not well today and actually going under some treatment because of which he could not attend the call today and next quarter he will take this call.

Saket Kapoor: Thank you, sir, for the reply and we hope that things do take a positive turn and for plant visit and all we will make the request to the IR team, sir?

Sourabh Agarwal: Yes, you can reach out to our Secretarial team, or you can reach out to the IR team and you will be do that.

Moderator: We have a question from the line of Madan.

Madan: My question is what would be the revenue target of our company in next 2 years?

Sourabh Agarwal: The revenue target of the company for next 2 years?

Madan: Yes.

Sourabh Agarwal: It is very difficult for me to give you any number at this point of time in terms of revenue target for the next two years. However, it will all depend on the final realization which we are going to get in our end product as well as the cost of raw material, so right now you can safely assume that it will be in line with our past performance, but giving out any number at this point in time will be very difficult.

Madan: Next question, when will be the Telangana plant we can use full capacity, are you full utilization in this quarter?

Sourabh Agarwal: So, Telangana plant utilization, it is under ramp up phase as Girish has mentioned in the previous question that was asked. And as you are aware that whenever we are starting a new facility, there are some teething issues which come at the beginning. However, we are hopeful that by the end of this year we will be able to ramp up to our full capacity.

Moderator: Thank you. As there are no further questions, I would now like to hand the conference over to management for closing comments. Over to you, sir.

Sourabh Agarwal: So I would like to thank all the participants for joining today and I hope we were able to answer all your questions and we look forward to meet you again in the Earnings call for the second quarter. Thank you so much. Thanks everyone.