Ester Industries Limited

Q1 FY25 Earnings Conference Call Transcript
13th August, 2024

Moderator: Ladies and gentlemen, good day and welcome to the Ester Industries Limited Q1 FY25 Earnings Conference Call.

Please note that this conference is being recorded.

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

Gavin Desa: Thank you. Good day, everyone and a warm welcome to Ester Industries Q1 FY25 Analyst and Investor Conference Call.

We have with us today Mr. Arvind Singhania - the Chairman and CEO; Mr. Pradeep Kumar Rustagi - the Executive Director of Corporate Affairs; Mr. Girish Behal - Business Head of Films, SBU and Mr. Sourabh Agarwal - 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 has been sent to you in the invite earlier. We trust you have had a chance to go through the financial documents and the presentation.

I would now like to invite Mr. Arvind Singhania to make his Opening Remarks. Over to you, Arvind.

Arvind Singhania: Thank you, Gavin, and thank you everyone for joining us today. I would briefly talk about the Key Business Developments post which Pradeep will walk you through our Financial Performance.

We have started this fiscal on a positive note, especially the Specialty Polymer business, which has seen a sharp growth both on year-on-year as well as quarter-on-quarter basis. Film business as well, after undergoing challenges over the last 24 months, has finally started witnessing some positivity in terms of pricing and margin. Basis robust growth both in domestic as well as global demand, the demand supply mismatch has started to narrow. We are therefore hopeful of a more balanced environment going forward in consequent pricing, margin and profitability improvement.

Moving on to individual businesses now**:**

Starting with the Specialty Polymers:

Q1 registered strong growth led by higher volumes with better product mix. As I have often emphasized, this business is protected by intellectual property, which safeguards our margins and profitability. Q1 registered revenues of Rs. 45 crore with an impressive EBIT margin of 43% largely on the back of higher off-take of our marquee products, namely MB03 and Innovative PBT.

For the quarter, our overall volumes stood at 982 metric tons as again 526 metric tons during Q1 FY24 and 853 metric ton during Q4 FY24. We exported 527 metric tons of MB03 during the quarter under review as against 247 metric ton in Q1 FY24 whereas Innovative PBT sales for the quarter stood at 301 metric tons as against 79 metric tons in Q1 FY24. We expect the momentum to not only sustain, but accelerate further throughout the fiscal year, leading to growth in revenue, margins and profitability. We remain focused towards building a healthy product pipeline and expect positive contributions from some of them over the coming years.

Moving to the Film business now:

After witnessing challenges over the last 2 years, primarily due to significant oversupply in the market caused by the bunching of new capacities, I am pleased to report that we have started to witness some respite over the past few months. While the demand supply gap still persists, it has started to narrow slowly and gradually auguring well for the business. A better pricing and margin environment aided in sustaining revenue despite lower volume for the quarter.

Our volumes at a standalone basis that is at Ester Industries level stood at 11,226 metric tons for the quarter as against 12,462 metric tons during Q1 FY24, low by 10% and 13,048 metric tons during Q4 FY24 lowered by about 14%. Lower volume growth during the quarter was owing to shut down of film production line one and two for maintenance and other reasons for few weeks.

In addition to a better pricing environment, I am also pleased to share that our efforts towards improving product mix by increasing the share of value-added products have started delivering results. Share of value-added and specialty products stood at 30% during the quarter and we are hoping to scale it up to 40% by FY26.

Our subsidiary Ester Filmtech generated revenues of Rs. 81 crore with volumes of 6501 metric ton during the quarter. We expect the entity to generate revenues of about Rs. 450 to 500 crore upon achieving optimal utilization at reasonable prices/margins by next fiscal. Better pricing environment resulted in positive EBITDA for the quarter. Robust growth in domestic as well as global demand will lead to improvement in margins and profitability of Ester Filmtech in coming quarters and years as well.

Plastic waste management rules are scheduled to come into force from April 1, 2025. These rules will mandate utilization of 10% recycled content in flexible packaging laminate. This is expected to lead to increased demand and consequent better margins for Polyester Film with conversion taking place from other substrates like BOPP to Polyester.

As regards to our JV with Loop industries:

I am happy to inform you that it is progressing as per schedule. Our new company, by the name of Ester Loop Innovative Technology Enterprise Private Limited has been incorporated which will be adequately funded through equity and debt as per need basis project implementation schedule. Various teams have been created by representatives from both Ester and Loop to pursue various activities for implementation of the project in right earnest. Our target timeline is to commence commercial production in the first half of calendar 2027.

To Conclude:

We expect a better performance during the year. Specialty Polymers has already demonstrated a strong revival during the 1st Quarter, so has the Film business in part. We believe both our SBUs are well positioned to deliver growth and create value and the joint venture with Loop, which is the transformative initiative, will pave the way for profitable growth for the company in the years to come. That concludes my opening remarks.

I now hand over the floor to Pradeep to walk you through our Financial Performance. Over to you, Pradeep.

Pradeep Kumar Rustagi: Thank you and good day everyone. Thank you for joining us on our Q1 FY25 Conference Call. Let me quickly walk you through our financial performance post which we can commence the Q&A session.

Starting with the revenues on a standalone basis: Sales stood at Rs. 244 crore as against Rs. 206 crore in the corresponding quarter last year, higher by 18%. The primary reason for the growth is the strong performance of especially Polymer business and revival in the Film business, as reflected by the better pricing environment. As mentioned by Arvind earlier, the Film business after undergoing a challenging time over the past 2 years has now started to see some early signs of revival in terms of pricing and margin improvement.

Specialty polymer business though as we have been indicating is largely an IP protected business, so the threat of competition does not exist and margins remain protected. EBITDA for the quarter stood at Rs. 17 crore as against Rs. 13 crore generated in Q1 FY24 higher by 35%. Margins for the quarter stood at 7% as against 6% during the corresponding period last year. The business incurred a loss of Rs. 2 crore during the quarter as against loss of Rs. 5 crore generated during Q1 FY24.

Moving on to the performance of Ester Filmtech Limited, our wholly owned subsidiary: Revenues for the same stood at Rs. 81 crore for the quarter. In terms of volume, Q1 FY25 generated 6501 metric ton of sales. With the pricing trend improving and demand supply mismatch narrowing, we are confident that Ester Filmtech will contribute positively to the overall growth of the business in the coming years due to its low operating cost. We expect the unit to generate revenues worth Rs. 450 to 500 crore upon achieving optimum utilization by FY26.

Despite losses incurred both companies, Ester Industries and Ester Filmtech are up to date in servicing debt, both interest and principle as per schedule. In addition to existing liquidity, equity induction of Rs. 99.90 crore in the month of March 24 by promoters and others has enabled the company to maintain comfortable liquidity and financial position.

Gross term debt and net term debt in the books of Ester Industries Limited as on 30th June stood at Rs. 180 crore and Rs. 92 crore respectively, while in the books of Ester Filmtech, it stood at Rs. 347 crore. Financial leverage as indicated by total outside liabilities to total equity ratio stood at 0.54x as of 30th June. For Ester Filmtech Limited, total outside liabilities to total equity stood at 1.4x as on 30th June 24.

In Summary:

As mentioned by Arvind Ji earlier, we believe both are SBUs are well placed to deliver growth and create value for our shareholders, Specialty Polymer business has already demonstrated the kind of performance it can deliver, and the Film business performance is expected to get better quarter after quarter, aided by higher proportion of value-added and Specialty Films and improving pricing and margin trends.

Domestic demand for Film continues to grow at a healthy rate, helping to bridge the demand supply gap. The joint venture with Loop Industries is progressing as planned and will prove to be a true game changer for us. Once it begins commercial operations, it will significantly transform the growth trajectory and profitability profile of the company.

Thank you.

Moderator: Thank you very much. Our first question is from the line of Krushna Parekh from Dolat Capital.

Krushna Parekh: My first question is related to Film business, the growth in the Film business appears subdued given the demand and improving margin profile for the industry. How do you see the next 2-3 quarters playing out?

Arvind Singhania: I think the improvement has just started a couple of months ago. I think you can expect to see substantially better numbers in the coming quarters.

Krushna Parekh: My second question is what is the progress with regard to JV with Loop?

Arvind Singhania: So, the JV with Loop is progressing very well and we have made a time schedule and as of now, more or less we are able to stick to our time schedule. And we are hopeful of breaking ground in the 1st Quarter of Calendar Year '25 and start up in the first half of 27.

Moderator: Thank you. The next question is from the line of Jatin Damania from Svan Investment Managers.

Jatin Damania: Sir, I just wanted to understand on the Film business. Now, as you indicated in your opening remarks that the demand supply mismatch has narrowed. So, can you throw some figures in terms of the demand supply, with how much new capacity is likely to hit the market?

Arvind Singhania: Sure**,** So, currently, the installed capacity including one line which is going to start up in the next 2 or 3 months is about 110,000 tons per month. That is the installed capacity of 110,000 tons. Operating capacity can be taken at about 100,000 tons given efficiency, micron because this 110,000 tons is based on 12 micron, but in effect lot of thinner microns are made like 10 and 8 micron, a lot of it is made. So, the effective capacity actually is 100,000 tons or lower. Domestic demand is estimated at about 65,000 tons per month and export is taking away about 20,000 tons. So, total demand for Film, domestic plus exports is about 85,000 tons against the effective operational capacity of 100,000 tons. The demand supply gap has now narrowed to about 15,000 tons. And that is why we are starting to see the improvement.

Jatin Damania: And this has been narrowed to 15. What was it earlier?

Arvind Singhania: Earlier meaning what, everything is related to time, so which period are you talking about?

Jatin Damania: If you look at the last quarter now, you said that the numbers, the realization and the pricing have been improved in the last couple of months. So, if I want to compare it with the last quarter or probably in full of FY24, what if?

Arvind Singhania: Last quarter would be to compare it to same period last year. Same period last year, this demand was 85,000 tons would have read more like 70,000-75,000 tons.

Jatin Damania: 10,000-15,000 ton extra?

Arvind Singhania: Yes.

Jatin Damania: And sir, in terms of now with the demand supply mismatch is getting narrowed, so can you help us in understanding the spreads of the Film business?

Arvind Singhania: So, the spreads over PTA MEG would be in the region of about Rs. 37 to 38 per kilo as we speak now.

Jatin Damania: And what was it in Q1 and corresponding quarter last year?

Pradeep Kumar Rustagi: Q1 was about Rs. 17 to 18 and the June '23 quarter, it was about Rs. 23.

Jatin Damania: And sir, now when we indicated that now we have taken a shut down right of the couple of lines, so now we have returned for a commercial reason, but do we see this line coming back into operation anytime soon with the improvement in the spreads or shall we work on the same volume numbers of 11226 for the full year on a quarterly basis?

Arvind Singhania: We will keep improving as the demand supply gap keeps improving and narrowing, the productivity and sales will keep going up.

Jatin Damania: So, we expect these lines to come back into operation, right?

Arvind Singhania: They are not permanently shut off, don't be under the impression. The lines are fully operating. Even today they are running. We are not shut them down permanently. We just curtail production as and when we feel the need.

Jatin Damania: When you are looking at the industry now, couple of player, one of the competitor who reported the number, in the BOPET, they reported a significant turnaround in the BOPET numbers whereas if you look at our packaging Film industry business, we still continue to make a loss at the EBITDA level. So, can you help us understanding?

Arvind Singhania: where is the loss of the EBITDA level in Ester?

Jatin Damania: No, sir, I am just talking about Polyester Chips and the Film business. On the Specialty polymer, we did make a good profit, but on the Polyester Chips and the Film business, we want to understand the business dynamics?

Pradeep Kumar Rustagi: Actually, if you compare with the peer companies also, most of the companies which have reported better results than us, they are into polypropylene space as well and polypropylene business has been doing quite well.

Arvind Singhania: They are doing extremely well for the past few months.

Pradeep Kumar Rustagi: So, Cosmo, Uflex, Jindal Poly and SRF, they are the one who have come out with their results. Jindal Poly, despite being in polypropylene, has reported negative EBIT of 1.3% for film segment and Uflex, they are both into polypropylene, polyester and laminate business. They have reported 9%, Cosmo is 4.34%. So, it is not very different from our performance.

Jatin Damania: Because we reported a loss on that number, so we were a bit worried?

Arvind Singhania: No, we have reported a net loss, not EBIT**.**

Jatin Damania: When the industry is improving, so definitely I mean those numbers on the loss of Rs. 7 crore looks big alarming that is why?

Pradeep Kumar Rustagi: Polypropylene has made a lot of difference.

Arvind Singhania: All the other companies who have reported, who are publicly listed, they all have polypropylene and polypropylene has been doing very well for the last few months.

Jatin Damania: So, definitely, now it is our time because the spreads have also improved from Rs.17-Rs.18 to Rs.37-Rs.38 as of currently what we speak.

Arvind Singhania: That is the huge difference.

Jatin Damania: Improvement will be seen in the coming quarters.

Arvind Singhania: Yes.

Jatin Damania: And sir, coming to the JV that we are doing it, what is the CAPEX that we will be spending in FY25 for this JV?

Arvind Singhania: FY25 won't hurt at all because we are only going to be breaking ground in the 1st Quarter of calendar, which is the last quarter of FY25. So, the outgo in this current financial year will not be too much.

Jatin Damania: And sir, in terms of the funding, how are we looking to fund this CAPEX of $165 million?

Arvind Singhania: So, very simple, we have a CAPEX of about $165 million which is going to be funded at 60-40, outside could be 70-30. If we take 60-40, $66 million will be the equity which will be shared 50-50 between Ester and Loop and the balance about $100 million will be raised as debt in the joint venture company.

Moderator: Thank you. The next question is from the line of Aditya Vora from Share India Securities.

Aditya Vora: Sir, I had a question on the Specialty Polymer business. One is that could you just highlight how the demand is with your major customers for PBT and MB03? That is one thing. And secondly, if I have to take the Polymer business, we have done Rs. 45 crore of revenues. So, are we on track to achieve Rs. 200 crore of revenues this financial year?

Arvind Singhania: Yes, I think circa Rs. 200, which we will definitely be able to achieve in this financial year. And we will continue to go because they are now introducing new polymers and new fields. So, we are expecting to grow, our internal target is to grow by at least 20%-25% per annum in our polymer business.

Aditya Vora: So, if we take the polymer business, say 2 years down the line in say 26-27, where do we see this business and what is the peak revenue you can generate from our capacity?

Arvind Singhania: I have enough capacity right now and in about 3 years' time, we are looking at least, I would say, at least near double.

Aditya Vora: So, Rs. 400 crore is something you can look at, right?

Arvind Singhania: Yes, very ballpark, it is very difficult to give the exact numbers 3 years down the line, but substantially better.

Aditya Vora: Plus this will be very high margin business, right, because you did EBIT of 40% plus. So, these are very high margin accretive business?

Arvind Singhania: We have always talked about in the past, if you remember my discussion, we have always said that will be circa 35%, but we have actually this quarter achieved 43% EBIT margin.

Aditya Vora: And just one thing on your Film business, I think you mentioned your average spreads for 1Q FY25 was roughly Rs. 17 and there was 30% share of the value-added products. So, what would be the spreads in the value-added products for 1Q FY25?

Pradeep Kumar Rustagi: It is a wide range, but I can give every proportion, average would be about Rs. 50-Rs. 60.

Arvind Singhania: Over and above normal price.

Aditya Vora: So, basically, you are saying the blended is Rs. 17 which is a mix of your 30% and the remaining 70%?

Arvind Singhania: No, Aditya, 17 is not blended, 17 is the 12 micron.

Pradeep Kumar Rustagi: 12 micron in domestic market and if you look at the domestic market blended it is about Rs. 22. The value-added products are majorly sold in the overseas market where the total value addition would be about Rs. 78 to 80 which is about Rs. 60-Rs. 65 over the normal film.

Aditya Vora: Sir, technically over the next couple of quarters and FY25 when your share of value-added products go higher from 30%-35%, which your target is, I am sure that will help increase your spreads also, right?

Pradeep Kumar Rustagi: That also plus the improvement in domestic spreads in normal film, but 30%-35% will not happen in a quarter. It will take time.

Aditya Vora: It will take one year. That is what I am assuming.

Arvind Singhania: Exactly.

Aditya Vora: Sir, is it safe to assume that in the 1st Quarter of FY25, we have got benefit of increase of BOPET spreads, but is it safe to assume that in 2nd Quarter and 3rd Quarter, the maximum benefit would be seen to the extent of 50%-70% if you take the current spreads which are there in the last week of July and August?

Arvind Singhania: So, basically, the improvement started in the month of June, so we really didn't get the benefit for the whole quarter. That is why even when somebody else asked the question previously, I think September and December quarters will be far better.

Moderator: Thank you. The next question is from the line of Prashant Rishi from Cascade Capital Investment Advisors.

Prashant Rishi: My question was, is there any other scheduled BOPET capacity which is coming on stream in next 2-3 years?

Arvind Singhania: There is one line starting up this year which is already taken into the capacity calculation of 110,000 tons, which is going to start up in the next 2 or 3 months. And then there is one more line expected in 25, which is another year away or so and after that it will be in 27.

Prashant Rishi: And the one in 25, how much is the capacity expected there?

Arvind Singhania: But that is only part of the calculation of 110,000.

Prashant Rishi: The one which is in 2025 also you have taken into account when you are calculating?

Arvind Singhania: In the 110,000 tons that is already accounted for.

Prashant Rishi: So, in that case, so besides 110,000 tons capacity, nothing is coming till 2027, you are saying?

Arvind Singhania: One more line is coming next year.

Pradeep Kumar Rustagi: Let us say in '25-26, one more line.

Arvind Singhania: And then after that it will be in 27.

Prashant Rishi: And the one, the line, which is coming next year, how much would the capacity be approximately?

Arvind Singhania: 3,500-3,700 tons. It is not going to make basic growth in demand. I don't think that is going to upset the apple cart.

Pradeep Kumar Rustagi: Actually, two lines would be needed every year to support the growth in demand.

Arvind Singhania: Minimum 2 lines earlier will be required.

Prashant Rishi: So, then, am I right in my estimate saying that at least from the next calendar year, we might even see very starting tightening of the capacities, tightening of supply and better realizations if not starting right now, may be 1-2 quarters?

Arvind Singhania: The improvement has already started. I told you, we answered this before also in today's call, improvement has already started and you will get better results in September and December. And then, of course, I mentioned and one more thing, please note plastic waste management rules which are coming into effect on 1st of April 25 are mandating 10% recycled content in laminates. Now, polyester is the only substrate which can offer recycled content. BOPP and other substrate cannot offer this. There is no techno-commercially viable alternative for that. So, we believe there will be some shift from other substrates to polyester which will help in reducing the demand supply gap faster.

Prashant Rishi: Sir, one more question. I know the company is not into BOPP, but what is the situation like in BOPP segment, it has seen a much earlier rate of improvement than BOPET?

Arvind Singhania: Again, we are not in BOPP. I won't like to dwell too much into detail about it because we are not fully informed. It would be not prudent of me to make serious comment, but what I believe is that BOPP has done quite well in the past few months. But I believe some strains have started already there, but I am not in the BOPP sector. I don't want to make any major judgment calls there.

Moderator: Thank you. The next question is from the line of Yash Dedhia from Maximal Capital.

Yash Dedhia: I just wanted to know, like you alluded earlier, my question was pertaining to the same thing. When the PWMR rules will kick off, how do you see the demand for BOPP transitioning for the Ester?

Arvind Singhania: Well, it will improve, but to what extent it will improve, time will tell, but if it improves 10% also then it is a huge number.

Yash Dedhia: So, currently there is no such guardrails which are dominating the polyester demand?

Arvind Singhania: No, since the rules are only becoming effective next year, trials have started with a lot of brand owners. We are now in trial mode with many companies, many brand owners who want to try out product with recycled content, which shows that there is a serious interest in converting to product with recycled content.

Yash Dedhia: That should boost BOPET demand better in coming years?

Arvind Singhania: Yes, of course, because other substrates are not able to offer it. And this is something which you can find out yourself. It is nothing. There is no secret to it.

Yash Dedhia: And sir, what is our spread on Polyester Chip right now?

Arvind Singhania: Polyester Chips is a marginal business. It is an intermediate product, so this is really more for topline number with very small. It has done on marginal cost.

Pradeep Kumar Rustagi: And we are giving it from Ester Industries to only Ester Filmtech, so in the consolidation that gets eliminated.

Yash Dedhia: So, it is usually being captively consumed?

Pradeep Kumar Rustagi: Correct. On arms and prices, but in consolidation, it gets eliminated.

Yash Dedhia: On Q1 end that is in June end, the BOPET spread, commodity spread?

Arvind Singhania: Right now, it is 37.

Yash Dedhia: Right now, it is 37, in June, it was, the last month of the quarter?

Pradeep Kumar Rustagi: The entire June quarter was much less. It was about Rs. 18, but July month it improved to Rs. 35-Rs. 38**.**

Yash Dedhia: So, April, May, June was around 17-18 only and then sudden improvement happened?

Pradeep Kumar Rustagi: Just hold on for a minute. April and May were not good. June, it started to improve. June quarter was Rs. 17-Rs. 18 kg, but April and May were very low.

Yash Dadia: Then for us, the blended rate would be less than 20?

Pradeep Kumar Rustagi: April was about 13-14. May was also in the same range, June it improved to Rs. 26 and the blended for the quarter was Rs. 17-Rs. 18.

Yash Dedhia: June ended on Rs. 26, correct?

Arvind Singhania: Yes, June month, it was about Rs. 26.

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

Saket Kapoor: Thank you for a very elaborate call and a very elaborate presentation also. So, it answers practically all the questions, and we could make also the conclusion that the downtrend in our industry which we operate is now over and there are more indicators that we are on the path to showcase improved set of numbers. That should be the basic understanding as the sum and substance of the current number and the business environment, sir?

Arvind Singhania: Yes.

Saket Kapoor: Sir, for this Specialty Films, what was our total sales mix for this quarter?

Arvind Singhania: Total sales in Specialty Polymer is of Rs. 45 crore with EBIT margins of 43%.

Saket Kapoor: I will come to the Polymers; I was asking for the Film part. We have the commodity film where you are mentioning, for the Specialty Films, what was our sales mix of the total?

Pradeep Kumar Rustagi: In Ester Industries, the total quantity of Films told was about 11,250 tons, out of which value-added and Specialty Film was close to 30%, 3200 tons. In terms of value quantity, it was 30%, but in terms of value, it was 42% of the sales made by the company.

Saket Kapoor: Pradeep ji, how much of the spread has improved in this in July as we are saying Rs. 37 to Rs. 38?

Pradeep Kumar Rustagi: The way we improve in commodity, in this we improve with a lag because the orders are picked up and it gets paid in a month or month and a half. So, there will be some time lag.

Saket Kapoor: If then, how much will be the differential because it will be one-third of our business**.**

Pradeep Kumar Rustagi: As I have told you the differential will be around Rs. 55 to Rs. 65.

Saket Kapoor:: So, that means whatever Rs. 37 to Rs. 38 is for commodity that would be Rs. 55 to Rs. 60.

Pradeep Kumar Rustagi: It is over and above. It will reach Rs. 85 to Rs. 90 but with a little time lag.

Saket Kapoor: But sir, this benefit we will be accruing for the 2nd Quarter, or will it take 3rd Quarter to get translated into the numbers?

Pradeep Kumar Rustagi: Partly in the 2nd Quarter and more so in the 3rd Quarter.

Saket Kapoor: Just to clear it, so from 3rd Quarter for this Specialty Film, the spread will improve to Rs. 80-Rs. 85, that is what you are telling?

Arvind Singhania: Rs. 85-Rs. 90.

Saket Kapoor: That will constitute 30% of the sales for Ester Limited?

Pradeep Kumar Rustagi: Yes, Ester Industries.

Saket Kapoor: Sir, how much volumes do you expect in Filmtech and what will be the utilization levels?

Arvind Singhania: It is very simple as and when our demand-supply will improve proportionately that will also improve.

Pradeep Kumar Rustagi: On a consolidated basis for year as a whole we are estimating our capacity utilization at 75% to 80% or a little better than that.

Saket Kapoor: Like last financial year it was 25,600 tons of Ester Filmtech and 1st Quarter was 6,501 so if you can just penciling-in the number on the base of 25,000 what should we look for this year for Ester Filmtech?

Pradeep Kumar Rustagi: It will be in the range of 32,000 tons to 34,000 tons.

Saket Kapoor: What is our total nameplate capacity?

Pradeep Kumar Rustagi: The capacity at Hyderabad is 48,000 tons. So, if you take 34,000 tons, it will be close to 70%.

Saket Kapoor: And Ester Industries, we are already at 90%-95%?

Pradeep Kumar Rustagi: We should be at 85%.

Saket Kapoor: And for the year as a whole, blended is 75%, we can take for both the capacity altogether?

Pradeep Kumar Rustagi: 75% to 80% for the whole year.

Saket Kapoor: Sir, now coming to the polymer business part, which Singhania ji had commented, so going ahead, sir, the trajectory of this what are we seeing in terms of the bid pipeline and in terms of the deliverables also, how is this segment going to perform for the current year and what factors are influencing the performance of the Specialty Polymer segments?

Arvind Singhania: Going by the 1st Quarter, we are very confident that we shall achieve ballpark Rs. 200 crore turnovers with EBITDA margins or EBIT margins in the region of about 40%. And we expect a 20%-25% growth rate year-on-year on this business.

Saket Kapoor: Sir, you mentioned Rs.200 crore, I missed the revenue part?

Arvind Singhania: I said approx. in the range of Rs. 200 crore you will receive plus minus Rs. 8-Rs. 9 crore with 40% EBIT margins and going forward, we expect to achieve about 20%-25% annualized CAGR growth.

Saket Kapoor: For the next year also, we are getting the comfort of this?

Arvind Singhania: Yes.

Saket Kapoor: Last point on the RM mix, sir how much fluctuation are you seeing in terms of PTA and MEG?

Arvind Singhania: Raw material has been going down for the last few weeks. As we have told many times to you, raw material has no meaning in our business. We have two businesses, whether it is polyester film or Specialty Polymer. In Film business, the margin is decided by demand supply. And once the margin is decided by demand supply, the raw material cost get passed on plus or minus. In Specialty Polymer business, the margins have been decided many years ago and we just adjust the raw material pricing movement every month. So, really raw material has no role to play.

Pradeep Kumar Rustagi: Basically, variation has been not too much. If you count from, let us say, September '23 till date, it is ranging in the Rs. 82-Rs. 85, Rs. 86. So, the total variation is about Rs. 4-Rs. 5.

Saket Kapoor: Sir, Specialty Polymer, what constitutes the major raw material, the raw material basket for Specialty Polymers?

Arvind Singhania: There are various other chemicals in there. I can't name all those, we have proprietary raw materials as well, so I can't name those chemicals.

Moderator: Thank you. The next question is from the line of Amit Kumar from Determined Investments.

Amit Kumar: Sir, just one point which I am just trying to understand, you seem to have a fair bit of confidence on demand growth now, our understanding is that segments that you operate in, principally the service, the FMCG industry, we are still seeing volume growth in low to mid-single digit. Now, I understand flexible packaging, the use cases are sort of expanding. So, I just wanted to, can you just give me a sense on the top 2, 3, 5 sectors which are sort of growing strongly from our industry or Films market perspective and what would be the mix of FMCG versus non-FMCG in your sales, if you can also help me with that?

Arvind Singhania: See, largely we are all FMCG because it all largely goes for food packaging, some goes for non-food. So, largely it is all FMCG related. 35% of our business approximately goes for Snack Foods. Now, Snack Foods is a huge growth business in India. If you take all the major brands, they are all growing phenomenally. So, I think you all do your independent research on downstream and FMCG, but snack food itself is something that the world doesn't have like we have in India.

Amit Kumar: Anything else, when you basically sort of seem to be getting almost a double-digit growth in our demand, is that all sort of driven by growth in snack foods? Is there anything else that also drives this?

Arvind Singhania: No, FMCG is the one that is mainly driving. I don't know how much drill down you do in your FMCG research because when you talk about FMCG, maybe only a smaller percentage is actually used in flexible packaging. And you will have to really drill down into the entire product range of FMCG companies to see which products are growing at single digit, which products are growing at double digits. But we are giving you actual numbers what the Indian demand is and the export demand is.

Moderator: Thank you. The next question is from the line of Subrata Sarkar from Mount Intra Finance Private Limited.

Subrata Sarkar: I have few basic understanding. One is like as you told the spread is a function of like demand supply rather than the raw material price and impact. So, sir, if we see last decade or so, we have always been very cyclical industry, so from a perspective of capital allocation, so you are into this industry for a very long time. So, what is the thinking of the players like why they because all of you are match you are tracking this industry for a very long time. So, you can ascertain like that what will be the demand for, let us say, 2-3 years. So, why do we go through such a deep cyclicity when a lot of capacity comes on and then supply outpaced demand and we started doing negative EBITDA and then our period happens lull period, we gradually pick up and then again start. So, my point is like you people are all mature players in the industry?

Arvind Singhania: I understood your question, let me answer it. So, there are 17 players in the Polyester film industry. Now, the 17 players don't sit together and decide how much capacity to grow every year. Everybody takes their individual decision. So, obviously a mismatch is bound to happen. There is no permit system. There is only a single agency which is saying that listen, you only need X amount of additional capacity next year, do not expand more than this and then they allocate who will expand. Everybody is taking their individual decisions and then new players also come in.

Subrata Sarkar: Yes, but my question is, sir, when you supply, as you told, your demand is a function of FMCG, which is structural growth, which is not very cyclical, the volume growth, more or less here and there. So, like whoever is this in your industry, they can quite well ascertain, what will be the yearly growth and then, sir, as you are giving figures like this capacity will come on in FY25 and then FY27, so all these players are also there?

Arvind Singhania: I understand, there are 17 players who are in this industry, everybody is taking his own decision. Everybody has his own view on growth and demand. Everybody has their own view of everything. How can we coordinate this? There is no way to coordinate this effort and it would be illegal also to coordinate this effort.

Subrata Sarkar: This part is understood. Now, coming to our side, sir, as you told like in the industry, how pricing is determined, generally based on the demand supply, people try to do an estimate that per ton this should be. What I am trying to understand, what is the markup that you decide? First you decide that per ton and this should be the spread I should get in an ideal situation and then the price of the finished product is determined based on the raw material or how the pricing system works there.

Arvind Singhania: Demand supply based, how the market can take is that the estimate we make, and I do my pricing accordingly. And also, we have to see what is the import parity, so imports are open. So, we have to also keep in mind what is the price at which imports can come in. Although imports are very difficult to do in our business, but still some volume of imports can come in. So, there are many factors we have to do and basically it is the market which in commodity it is the market will determine.

Moderator: Thank you. The next question is from the line of Aman Kumar Sonthalia from AK Securities.

Aman Kumar Sonthalia: Sir, there are a few questions. Sir, we export I think a little bit of quantity. So, what is the speed there compared to India?

Pradeep Kumar Rustagi: The spreads in exports are better than domestic. If you look at the plain film to plain film, because in exports we are not selling commodity film as much as we sell in domestic market. We have to look at the blended. Blended is about Rs. 65 to 75 that is the range we currently prevailing, value addition because it has a lot of value-added and specialty products. The proportion of value-added and specialty products in export would be much more than 30%. 30% is for Ester in totality. For exports, it would be more than 70%.

Aman Kumar Sonthalia: So, if you take the commodity where apples-to-apples, then export gives better margin than India?

Pradeep Kumar Rustagi: As of now, yes.

Aman Kumar Sonthalia: And sir, because of this Red Sea crisis whether our cost of freight has gone up?

Pradeep Kumar Rustagi: Yes, there has been. It is applicable to everybody.

Aman Kumar Sonthalia: Even after paying such a high freight charges, it is more profitable than selling to international market than to India?

Pradeep Kumar Rustagi: Yes.

Aman Kumar Sonthalia: And sir, we have our own Chip plant. So, what is the cost advantage we are getting from our own Chip because I think it is a very negligible margin product?

Pradeep Kumar Rustagi: So, what happens that we have to run the CP, continuous polymerization plant at a certain capacity? If you run it at a higher capacity, the incremental power and fuel cost is on marginal costing basis. So, for additional quantities that we produce, the power and fuel cost is negligible and therefore it makes sense for us to produce in Khatima for us to sell to Ester Filmtech in Hyderabad. It saves us around Rs. 3 to Rs. 4 on per Kg of chips.

Aman Kumar Sonthalia: And sir, one more, BOPP and BOPET, is there any difference in cost of making these because their price difference is quite high?

Arvind Singhania: Generally speaking, variable cost of production in BOPP is lower than polyester, but I don't know the exact number.

Aman Kumar Sonthalia: And sir, Specialty film that we made, there is a spread difference of Rs. 60, but other than spread difference, is there any extra cost we incurred on making this Specialty Film compared to commodity film?

Arvind Singhania: Yes, of course there is additional cost.

Aman Kumar Sonthalia: So, net-net, what is the extra realization?

Pradeep Kumar Rustagi: We have told you the net of additional cost. The major cost is of raw material for additive chemical chemicals that have been factored into this. On the conversion side, the incremental cost is not much.

Aman Kumar Sonthalia: And sir, one last question. Domestically, we are near to demand supply balance, but internationally what is the situation?

Arvind Singhania: Internationally, it is actually very difficult to establish very accurately because we are unable to get accurate numbers from China, which is the largest player. So, we depend on Wood Mackenzie report, but even that has a large amount of inaccuracy, but there is a substantial amount of overproduction in China. To what extent we don't know exactly, but Chinese production is largely limited to their domestic consumption and to the extent they are not able to consume, they keep the lines shut. Very little is exported out.

Pradeep Kumar Rustagi: And the total export that India makes as compared to the size of the overseas market is negligible.

Moderator: Thank you. The next follow up question is from the line of Amit Kumar from Determined Investments.

Amit Kumar: Sir, coming back on to the demand side, so on the export side, right now you seem to indicate that export spreads are a little bit better. Domestic demand versus export demand how are we sort of seeing this and again this export demand, again where is this really coming from because at least as far as the major markets are concerned, US and Europe typically volume growth is very negligible, but mostly zero, but let us say 1%-2% or so, if you could just throw some light on that? Or is it that Indian players are basically gaining market share in these markets and if so at whose expense?

Arvind Singhania: See. Please understand there is a global demand for polyester films in countries like Europe and America that are short. They don't produce enough for their consumption and India is exporting because it has some excess capacity which it is able to export at fairly, I would say very extremely remunerative prices, but at reasonable prices. So, what is the volume that India exports, nothing.

Amit Kumar: No, in terms of growth, what are so domestic versus export are we?

Arvind Singhania: There is no major growth in the export market, please understand.

Amit Kumar: So, the growth is coming from the domestic side, correct?

Arvind Singhania: Absolutely.

Moderator: Thank you. Ladies and gentlemen, we will take that as the last question for today. I would now like to hand the conference over to the management for closing comments.

Arvind Singhania: Thank you, ladies and gentlemen for attending Ester Industries Q1 FY25 Earnings Call. We look forward to seeing you for the Earnings Call for Q2. Thank you very much and have a good day.