Ester Industries Limited

Q2 & FY21 Earnings Conference Call Transcript

October 29, 2020

Moderator: Ladies and gentlemen, good day and welcome to Ester Industries Limited Q2 FY21 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 Aman. Good day everyone and a warm welcome to Ester Industries Q2 and H1 FY21 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 floor open for interactive Q&A session.

Before we begin, I would like to point out that some statements made in today's discussions maybe forward-looking in nature and a note to this effect has been sent to you in part of the invite earlier. I would now like to invite Mr. Singhania to make his opening remarks. Over to you, Arvind.

Arvind Singhania: Thanks Gavin, and thank you everyone for joining us today. I have alongside with me Mr. Pradeep Rustagi our CFO. I hope all of you are safe and healthy, I will begin the call with key highlights from each of our businesses. Following which Pradeep will walk you through our financial performance for the quarter and first half.

To begin with, I am pleased to report that we continued to build on our recent business momentum, with revenue and profitability both growing at a healthy clip during Q2 on the back of stellar performance of the Film and Engineering plastics businesses.

Let me now talk about the individual businesses starting with Specialty Polymers. While performance during the current year is likely to be subdued primarily because of COVID-19 related restrictions in customer markets. The business fundamentals remain structurally sound and we expect strong recovery, next year onwards. Business momentum is slowly picking up steam following challenging Q1 which was disrupted by COVID-19. But for COVID-19, performance of Specialty Polymers SBU would have been much better than FY20. We are very encouraged with the introduction of three new products namely LMC-03, Low Melt, Cationic Dyeable Master Batch MB-16 and the Deep Dyeable Master Batch MB-07 in recent weeks, and expect these products to contribute substantially going forward. Commercial sales have already started on a small scale. These products find applications in textiles/ carpet industry and are expected to contribute significant volumes starting very soon. We are already witnessing revival in demand for MB-03. Demand for innovative PBT continues to remain strong. We have already achieved in the first half sales of 535 metric tonnes as compared to sales of 465 metric tonnes during FY20. Innovative PBT finds applications mainly in consumer electronics currently, and is now being propagated for other applications such as automotive, textiles, cosmetics, etc. The fundamentals of the Specialty Polymer business are strong, we expect sales revenue upwards of Rs.150 crore with EBIT margins in excess of 40% in FY22. Given that Specialty Polymers is an IP technology driven business, and secondly, it is largely patent protected, which acts as a very strong entry barrier.

Moving on to our film business: Film business maintained its momentum on the back of strong demand from the end user industries. COVID-19 pandemic appears to have had positive effect on film business, with the growing number of customers preferring more packaged products for health, hygiene and safety. Stronger demand resulted into improvement in sales, volumes and capacity utilization. The domestic demand has been growing at a healthy clip of 11% to 13% annually in recent years, which is translating into steady margins. Additional capacity created on account of commissioning of two new lines in FY20 were absorbed with minimal disruptions as I had already mentioned in my last call. We are also working towards improving our product mix by close to doubling the share of value-added products to 30% by the end of FY22 from 16% at present. Commissioning of the offline coater during the previous quarter was a step in this direction. High proportion of value accretive products will enable us to improve margins and profitability of the same. We expect the demand momentum to continue over the years to come and in line with this we have started setting up a new film manufacturing unit through a wholly owned subsidiary in the state of Telangana to help meet growing demand of domestic and international customers.

As informed in earlier calls, the project will be judiciously funded through a mix of debt and equity. We are in advance stages of tying up funds, both foreign currency and rupee term loans for the project. The overall cost of debt for this project is expected to be about 6% per annum. We are targeting to complete this project by June 2022. The commissioning of the new line will provide a further leg up to the business and help drive revenue growth.

As far as the Engineering Plastics business is concerned, COVID-19 adversely impacted the performance during Q1 FY21. However, the revival has been sooner and stronger than I expected, demonstrated by substantial improvement in volume of sales and margin in Q2 FY21. In fact, Q2 FY21 has been the best quarter both in terms of volume and margin in the history of the SBU.

Like film business, we are working towards improving the product mix for this business, we are confident of much better performance of Engineering, plastics SBU going forward. To conclude, I would like to state that we remain confident about prospects, we see significant headroom for growth across all our businesses. While film and Specialty Polymer business are structurally well placed with strong demand visibility, Engineering plastic business would start delivering steady performance and contributing meaningfully to the overall growth of the company going forward. Volume off-take for most of the products under Specialty Polymer business is improving. We expect the business to deliver good growth over the coming years, following pickup in demand for established and emerging products. Film business as well as is expected to perform well basis strong double digit growth in demand. Further, our efforts towards improving the product mix as well will have positive effect on the performance of film business.

That concludes my opening remarks, and I hand over the floor to Pradeep to walk you through our financial performance.

Pradeep K. Rustagi: Good afternoon, everyone. And thank you for joining us today. I'll quickly walk you through our performance for the quarter and first half post which we can begin the Q&A session.

Starting with the quarter revenues from operations stood relatively stable on year-on-year basis at Rs.251 crore as against Rs.254 crore generated during corresponding quarter last year. However, one needs to consider Q2 FY20 included revenues worth Rs.16 crore from sale of chips as against zero revenues during the current quarter. Adjusted for that, we would have delivered growth on a year-on-year basis. For the first six-month revenue stood at Rs.439 crore as against Rs.538 crore reported during H1 FY20 lower by 19% primarily owing to COVID-19 challenges which impacted revenue during Q1. EBITDA for the quarter stood at Rs.73 crore as against Rs.46 crore generated during Q2 FY20 higher by 58% on the back of better margins in film business and significantly improved performance from Engineering plastics business. For H1 the same stood at Rs.126 crore as against Rs.100 crore garnered during H1 FY20 higher by 26%. Finance cost for the quarter stood at Rs.4 crore as against Rs.7 crore outgo reported during Q2 FY20 lower by 43%. On a half yearly basis as well declined by 43% to Rs.8 crore as against Rs.14 crore.

As of September 30th, 2020 our outstanding interest bearing term debt net of free cash stood at Rs.65 crore while interest bearing working capital liabilities stood at Rs.32 crore, interest bearing debt net of free cash as a multiple of annualized EBITDA stood at a healthy level of 0.39x as of 30th September 20 in comparison 0.8x as at 30th September 2019 and 0.47x as at 30th June 2020. As mentioned by Mr. Singhania earlier, we are committed towards maintaining better than prudent debt tangible net worth ratio, investment as equity into the wholly owned subsidiary will not materially alter our gearing ratio, the overall cost of debt for the same project would be about 6% per annum as we plan to take advantage of low cost euro denominated foreign currency loan.

Depreciation for the quarter stood at Rs.9 crore on a half yearly basis. The same stood at Rs.17 crore. Profit for the quarter stood at Rs.46 crore as against 19 crore generated during Q2 FY20 higher by 139% while on a half yearly basis the same stood at Rs.75 crore against Rs.43 crore reported during H1 FY20 higher by 74%. To conclude, I would just like to reiterate that our business momentum is now picking up steam across all the verticals. Film business continues to benefit from favorable demand supply dynamics and strong demand growth. Specialty Polymer business as well as showing increasing trends with steady demand for most of our products. Volume for MB-03 as well has started to pick up gradually. We continue to remain positive on the business and expect significant growth in the coming years, Engineering Plastics as well is showing improvement and is expected to perform well going forward. Thank you.

Moderator: Thank you very much. The first question is from the line of Rahul Nadkarni an Individual investor.

Rahul Nadkarni: My question is relating to the films business, polyester films business. So, in this, in the investor presentation you have mentioned that the polyester film chips revenue has been zero for this quarter. So, is it like this business has been totally discontinued?

Arvind Singhania: No, it has not been discontinued, it has only been discontinued for a short while. In any case, this was just to fill up capacity it doesn't deliver us very high margin, we have spare capacity in chips so we sell it and we make a couple of bucks. So it's not really a very meaningful bottom line provider.

Rahul Nadkarni: My next question is in relation to the new entity that you have formed and then new project that you're coming up with, I understand there is an increase in the project cost by around Rs.87 odd crore so, in that I wanted to understand there were two figures which were appearing in terms of as on September there was an amount of around Rs.28 crore and as on 26 October there was a figure of Rs.75 crore, I just wanted to understand is this completely equity or this is the investment which is made?

Arvind Singhania: Okay. This is the equity which has been given by Ester Industries into the wholly owned subsidiary and there has been an increase in the project cost which was earlier estimated at Rs.500 crore is now about Rs. 585 crore. This is largely on two accounts number one, that we have increased the land area that we have taken, and a better location has been chosen. So, the price of land per acre is higher and we will be able to accommodate more number of lines going forward. So, this has increased the investment number one. Number two, there will be upfront payment for the Euro loan that we are taking of about Rs.15 crore which is built into the all in cost of 2% So, that amount was added on of Rs.15.8 crore and then the third is because of the of the depreciation of the rupee versus the euro and some more equipment which was underestimated has been added on. The project cost is now frozen at Rs.585 and will not undergo any further improvements.

Rahul Nadkarni: Okay. So, in terms of out that Rs.585 what would be the debt quantum and how much of it is tied up as of now?

Arvind Singhania: Okay. So the equity will be Rs.175 crore and about Rs.400 crore will be the debt is the wholly owned subsidiary.

Rahul Nadkarni: And the Rs.75 which is done till 26th of October is entirely equity, no debt drawdown has been made till date?

Arvind Singhania: No, in the wholly owned subsidiary no debt has been taken.

Rahul Nadkarni: No, debt has been taken okay. Then the next question is on Engineering plastics division, there has been a significant improvement in terms of, if I look at on a quarter-on-quarter basis in terms of this business, which was been a laggard for the Company as a whole. So what exactly has changed if you can throw some light on this business?

Arvind Singhania: Well two things happen number one, there was a lot of pent up demand, because Q1 was horrible for this SBU. So volumes was substantial, we were geared up to take care of this volume that was point number one. We also took advantage of very cheap raw materials which are available in Q1 because prices across the globe had fallen for all materials and we took advantage and we bought very cheap raw materials which gave us a lot of success for the SBU. And auto and electrical segments have picked up tremendously.

Rahul Nadkarni: Okay and just to understand in terms of if the investment in the wholly owned subsidiary was around Rs.28 crore, as on September 26, so within 26 days we made an incremental investment of Rs.50 crore did we have that sort of a cash on our books as on 30th September?

Arvind Singhania: Yes.

Moderator: The next question is from the line of Viraj Mahadevia as an Individual Investor.

Viraj Mahadevia: Sir can you give me a sense of the expected revenue growth going forward, obviously we've had a growth and profitability, but it's come largely from the cost side of the equation? So, can you give us a sense as you think about the next one or two years of how you see revenue growth at a consolidated level for the company?

Arvind Singhania: Well, let me put it this way that first of all the margin improvement has come because of the margin improvement in film largely right now. And of course in Q2 Engineering plastics has contributed as well, going forward by and let me give you a number that FY23 at exit of FY23 will be at a run rate of about Rs.2,000 crore per year.

Viraj Mahadevia: Are you thinking double digit growth rate then, in general over the period?

Arvind Singhania: Well, we are at about Rs.1,000 crore right now and for let say FY24 full year we will be at about Rs.2,000 crore. We will double our turnover in four years' time.

Pradeep K. Rustagi: New film plant will be commissioned in June of 22. That will also add to the revenues.

Viraj Mahadevia: Second question Mr. Rustagi for you, when I look at the margins 29% in Q2 of FY21 versus 18% in the same quarter last year, of the 11% bump up in margins, how much of that has come from mix change towards specialty polymers, raw material benefits due to crude or thirdly any other cut in operational expenses, can you give us a sense of the break up in these buckets?

Pradeep K. Rustagi: The improvement in margin is only on account of the margin improvement in film business because as we have been telling in the past, in film there is a pass through model, any movement in the raw material price is passed on to the customer. So the demand and supply situation determines the margin. So the improvement in the result is on account of improvement in margins only.

Viraj Mahadevia: So, if I understand you correctly it's not on account of RM because that's a delayed pass through but it's largely operating leverage and mix?

Pradeep K. Rustagi: See it is a leverage coming out of the demand supply, because we were running our film plant at almost 100% capacity. So they've not much room for increasing the production. So it is the demand supply.

Arvind Singhania: The margins in film business have improved and that is what is showing the results.

Viraj Mahadevia: The margins in films have improved?

Arvind Singhania: Yes.

Viraj Mahadevia: And is that because of operating leverage again or what has changed there?

Arvind Singhania: Demand, supply.

Viraj Mahadevia: So essentially, you have had greater demand for your products and consequently for the same level of operations you have greater supply?

Arvind Singhania: We don't, we are restricted with supply we don't have capacity, we are running at full capacity.

Viraj Mahadevia: Right. So then how do you see improvement in margins if you're already running at full capacity?

Arvind Singhania: The prices have gone up, the difference between selling price and raw material has increased, the value additions have increased.

Viraj Mahadevia: So value addition has increased on account of mixed, etc. Okay, understood. Thank you very much.

Moderator: The next question is from the line of Himesh Satra from Sequent Investments.

Himesh Satra: So my question is, what is the revenue potential that we are looking from the new facility that will come in from June 2022?

Arvind Singhania: About Rs. 500 crore at full capacity utilization.

Himesh Satra: Okay. And so this MB-16 also, as we were on our way to research few commercial orders. So, have you received any commercial orders for MB-16?

Arvind Singhania: Yes, it's already done. So, this was the old MB-06, which used to report in our presentation this has now been renamed as MB-16.

Himesh Satra: Any amount received?

Arvind Singhania: So, we have already received our first order, it has been executed. It is being run by the customer. The first trial has been very successful, they are now running a larger 18 tonne and this material is expected to be approved. And once it is approved, we will start doing larger volumes immediately.

Moderator: The next question is from the line of NM Modi an Individual Investor.

NM Modi: Sir my query is regarding investment which we are going to make into subsidiary so, the amount of loan which we will be providing to them will we be charging an interest on that company?

Arvind Singhania: We are not providing any loan to the subsidiaries it is all going as equity.

NM Modi: Okay. By way of equity only?

Arvind Singhania: Yes.

Moderator: The next question is from the line of Arnav Kapoor as an Individual Investor.

Arnav Kapoor: I had a couple of questions. One is on the SP business, there seems to have decreased in the margin guidance had been approximately 35% blended, could you say that are we trying to sell more at the expense of margin, or do you feel for the next year we'll be at 30%, 35% from a margin perspective?

Arvind Singhania: So basically, the margins in SP business in terms of per kilo has not changed at all. It's only that our volumes have fallen because of COVID. Once the volumes come back, the margins will go back up to the same number, because fixed cost remain fixed.

Arnav Kapoor: Got it, that's very helpful and from the Engineering plastic division, there has been a margin improvement and you also mentioned in your opening commentary that it's been the best quarter, what is the current capacity utilization and do you think can it sustain and you have also mentioned that you're looking at expansion, what is the overall driver for this bullishness that you have on the EP business are going forward?

Arvind Singhania: You see, the auto and the electrical segment has shown a tremendous rebound in Q2, we expect this momentum to be maintained going forward and we are also looking at investment because we are looking at relocation of the plant, which will help us in serving the customers better and reduce our costs substantially because there's a lot of logistics costs involved because of our current location, bringing in raw materials from the port all the way up North and then distributing it all over India. So we are looking at an investment to relocate the facility with the new extruder, additional new extruder to take care of growing demand and it is fully justified because the relocation itself will increase EBITDA margins by about 3%.

Pradeep K. Rustagi: And the current capitalization is about more than 70%.

Arnav Kapoor: Okay, got it. So it's, capacity utilization plus the cost optimization that you're looking for.

Arvind Singhania: And the investment in the Engineering plastic business is not very large, is very, very small. So including relocation and a new extruder the total cost would be under Rs.20 crore.

Pradeep K. Rustagi: And the saving more than this will justify this.

Arnav Kapoor: Got it. Okay, that makes sense. And just two last questions if I have the opportunity to ask, the BOPET spread, you will expect the spread you expect them to maintain between Rs.50 and Rs.60 throughout this year, and also going forward, do you expect that to fall or any increase in that or expect will sustain?

Arvind Singhania: I think it will sustain for the next 18 to 24 months at least.

Arnav Kapoor: Okay, and just one final question given the second wave of COVID. At least in the Northern hemisphere that we are seeing, do you expect that to impact your SP business, do you given that it's coming from the US entirely, the revenue in 2020 was about Rs.73 crore, so you expect Rs.75 crore still to happen in this year, barring the second wave if that comes through or not in the US at least?

Arvind Singhania: So basically, in the Specialty Polymer business only one product got impacted, which was the MB-03. We've already seen revival of that business starting to happen and we expect this to continue that kind of lockdown what we saw and the panic that was created in the first quarter, we don't expect that whatever be the COVID situation. I don't expect businesses to shut down and be under lockdown the way it happened in Q1, because no country in the world can afford closures anymore. Business have to run as usual, and plus the expectation of the vaccine coming is going to ensure that business returns to normal faster. So we don't expect any negative impact from COVID anymore. And in any case, as far as the, like I said SP business is only impacted on the MB-03 no other product.

Moderator: The next question is from the line of Ajay Bodke from Prabhudas Lilladher.

Ajay Bodke: So, you mentioned in your interaction on CNBC that the spreads in July which had gone up to Rs.75 levels, and subsequently come down to Rs.50 levels. What is your estimate about the spreads going forward in film business for the next six months, that's the first question? Secondly, in Specialty Polymers for FY22 with a guidance of Rs.150 crore and a margin of 40% what kind of revenues are we looking at in FY21, for Specialty Polymers and what kind of margins for the full year one should bake in, And lastly, if you could just dwell on the demand supply dynamics in the film business have any new lines come up since the start of the financial year?

Arvind Singhania: So, I have mentioned that the spread in film will remain between Rs.50 to Rs.60 going forward for the short to medium term and I maintain that.

Ajay Bodke: Okay, sir. Sir in the Specialty Polymers what kind of revenues should one break in for FY21 and margins?

Arvind Singhania: FY21 should be about the same as last year Rs.70 crore maybe Rs.60 to Rs.70 crore largely hit because of MB-03.

Ajay Bodke: Okay, sir. Sir and because MB-03 mainly go in the restaurant business where the carpet size is dropping multiplexes?

Arvind Singhania: This is commercial carpet application.

Ajay Bodke: Commercial carpet, okay. So you expect that business to come back in the second half in America and in West?

Arvind Singhania: It has already started coming back, earlier than we expected. And it will, so we have lost half the year and therefore we have had a substantial loss of that business in this current year. If this hadn't happened, if COVID hadn't happened we would have been in excess of Rs.120 crore in the SP business in FY21.

This will rebound, and I've given a clear guidance that FY22 we expect our turnover to be in upwards of Rs.150 crore with margins of 40%.

Ajay Bodke: Yes, sir. And sir lastly on the demand supply dynamics in the film business, have any new capacities come up sir when you start with the financial year in the industry?

Arvind Singhania: No, new capacity has come up in the current calendar year of 2020 and the next capacity expected to start up is around September, October of 2021.

Ajay Bodke: And how much would that be sir capacity?

Arvind Singhania: 40,000 tonnes approximately. The second line I am not sure because they've all been delayed because of COVID.

Moderator: The next question is from the line of Sonaal Kohli from Bowhead.

Sonaal Kohli: I have a couple of questions. Firstly, on your packaging business how is the demand doing and considering new capacities it will take a while to come you said September 2021, how would you service your growing demand in India, I guess the demand is growing at 12%- 13%, exports as well at an industry level and for you at a company level as well would you be able to grow both again once the new capacities in the industry commence?

Arvind Singhania: Yes, so you're absolutely right, there will be a change in dynamics between domestic and export and once the new capacity start coming, we can always increase exports again. Zari demand is back to full almost.

Sonaal Kohli: And sir where are currently margin higher and due to this COVID cases, like we saw in July and August, do you expect restocking in Europe to increase for packaging products or this time better prepared so we may not see that kind of situation?

Girish Behal: Whatever the COVID scenario, we expect that the stocking situation will again, take the previous shape what we experienced in first quarter.

Sonaal Kohli: So you expect stocking could go up in Europe because of this?

Girish Behal: Because originally stocking was done to at least continuity on essential goods supply. So things normalize, and then the stock levels were reduced. And with the second wave coming in of course that scenario has to come back again, next time it could be than what we saw earlier.

Sonaal Kohli: Sir as far as your product mix in packaging is concerned in terms of value-added and non-value-added products, can you give some idea incrementally let's say going forward, how much more EBITDA or revenue you could make because of this business, let's say in 2021 and 2022 as compared to your normal, non-value-added business and how this mix could change over the years, let's say 2021, 22, 23, as compared to FY20 a very broad direction?

Arvind Singhania: So, I said that the value-added business will give you a digital margin of about anything between 50, let's say on an average Rs.60 over and above plain film. So if you do 4,000 tonnes per year more, it will give you about Rs.24 crore.

Sonaal Kohli: And sir is this what you are expecting, and when would you expect this 40,000 on a quarterly run rate basis at least 10,000 kind of number to start?

Arvind Singhania: 10,000, I am sorry your numbers are wrong, it's 30%, so, we have already had about 16%, 17% by March we will reach about 25%, 26%.

Pradeep K. Rustagi: Exit rate.

Sonaal Kohli: So, sir what I was trying to understand in terms of incremental volume like you said 40,000 is that the incremental volume we're talking about?

Arvind Singhania: 4000 not 40,000.

Sonaal Kohli: Sorry 4000. So, what I'm trying to understand, let say your profitability in packaging business was let say Rs.100 in the preceding quarter which has gone by, when do you think because of your what could be the profits, let's say 12 months down the line, just because of change in product mix. That's what I'm trying to gauge right now and what could be a medium term direct?

Arvind Singhania: I am giving you exact numbers, that it will be approximately Rs.25 crore more because of this particular coated business.

Sonaal Kohli: Over the next 12 months?

Arvind Singhania: Over the next. Once we reach full capacity utilization, which we expect to reach by March.

Sonaal Kohli: Okay. And sir as far as your Specialty Polymer is concerned do you expect Q4 to be a bigger quarter than Q3. And how do you expect the mix between existing and new products for 2022? I guess you've got some new patent as well and would you, you have seen a guidance from your sides for FY23 etc., so how are you building those estimates and what gives you confidence are these, is it like you're adding new customers or are you meeting only small part of the demand of existing customers and you have some kind of visibility from them that they would increase the off take from you or is it you're betting on success of new products or is it a mix of all of these. We are just trying to understand because it's a very high growth rate and I am trying to understand the probability of success in that business and the various moving parts. So, an elaborate answer on what gives you that kind of confidence for a 300%, 400% growth rate will be very helpful.

Arvind Singhania: It's very clear, it's a mix of all three number one, we expect our MB-03 to come back next year substantially. Number two, the three new products that we have introduced would start are going to start giving us volumes and number three, we expect the innovative PBT to increase volume substantially next year and this is all based on clear guidance by the customers.

Pradeep K. Rustagi: So, innovative PBT we already have done 535 tonnes in first half as compared to 465 tonnes last year.

Arvind Singhania: Against a contracted volume of 400 tonnes per year. So, this year, we expect to cross 800 tonnes and next year this will be in the region of 1200 - 1500 tonnes.

Pradeep K. Rustagi: So, new products, revival of MB-03 and innovative PBT.

Sonaal Kohli: And sir as far as this business is concerned would we reach saturation of the market in FY23, FY24 or how big is the pie, how conservative or aggressive are your assumptions in context of the size of the pie and the number of customers you still have to tie up or your existing customers let say if there are 200 volumes, so what are you catering to them currently in for those kind of are you setting 100?

Arvind Singhania: I have understood your question, let me answer that very quickly. Here we are creating the pie there is no pie to take a slice from. We are developing new products and creating a new pie to eat. So, as per the current visibility we are very confident as we have mentioned we are a very confident of going upwards of Rs.150 crore in FY22 and by FY24 or 25 we will be at about Rs.400 crore revenue with +40% EBIT margins.

Sonaal Kohli: So, sir as far as the existing products are concerned, I'm not talking about the new products the market which they cater to have you taken any get scratch on the part of the small part of the pie or just, I am trying to get idea about the existing?

Arvind Singhania: It's not a small part, I am telling you this is a patented product, nobody else can supply this product. We have 100% share.

Sonaal Kohli: So, sir let me rephrase my question. I understand it's a patented product what I am trying to understand is, let say the end user industry where your products are introduced, what kind of penetration have you achieved in those products and how big the potential pie let say over a five year period could be for your existing production. So, let's say you cater to a particular industry because we order the new product obviously takes time for the usage to increase. So, what is the level of the?

Arvind Singhania: It's a very long answer if I had to go product by product Sonaal it's a very long answer.

Sonaal Kohli: Your key one, two products that's it, existing products.

Arvind Singhania: Okay. MB-03, we are estimating to sell about 1700 tonnes by, we should do about 1,400 to 1,500 tonnes next year 1,700 tonnes in FY23 and it could have a potential of going up to 3,000 tonnes per year but I'm not factoring that in, that is not factored in. I am only stopping at 1,700 tonnes. On IQ PBT its going to continue to grow year-on-year. So last year we did 450, this year we expect to cross 800, next year we expect to do about 1400- 1500 and this will keep growing incrementally every year and could reach 4,000 or 5,000 tonnes in the next few years. Then as far as MB-16 is concerned we are talking with one customer for 3,000 tonnes per year. This could grow to 6, 7000 but I am not factoring in 6000- 7000 I'm only factoring 3,000 tonnes what I have got clear guidance from one customer. On the MB-07, I have clear cut guidance of 1,000 tonnes from one customer we are in talk with another customer for similar volumes. And there are various other and then LLC-03 which is our hot melt adhesive. We are factoring only about 5000- 6000 tonnes by 2024- 2025. This has the potential to go up to 40000- 50,000 tonnes if it's a super hit in the market.

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

Saket Kapoor: Sir firstly you spoke about the new lines of 40,000 metric tonne coming up in September 2021, is it correct sir for the film business?

Arvind Singhania: That's what we understand.

Saket Kapoor: Okay sir and that is from your competitor?

Arvind Singhania: Yes, one of our competitors is starting up, is expected to start up by September, October next year.

Saket Kapoor: That is the biggest Jindal Poly will be the one that will be commissioning it next year.

Arvind Singhania: No, I don't believe it's Jindal Poly.

Saket Kapoor: Okay sir then can you correct me sir if we take the peer comparison in terms of capacities in the pecking order, the Indian players sir?

Arvind Singhania: Jindal is the largest in polyester film followed by SRF and then Surat Metallics and Vacmet.

Saket Kapoor: And where do we rank sir in that pecking order?

Girish Behal: We have a capacity share of about 9%, we would be in the fifth or sixth category, and there are many players in our capacity range.

Saket Kapoor: Sir, can you give color on how the raw material basket has shaped up?

Arvind Singhania: The property has been rock steady since March and there has been a mild, there's been a small increase in the last two weeks.

Saket Kapoor: Okay, is it in the PTA prices or the MEG prices?

Pradeep K. Rustagi: Both have increased but marginally.

Saket Kapoor: What has been the price trend for MEG and PTA?

Pradeep K. Rustagi: PTA is at about Rs.40.50 per kg as of now and MEG is about Rs.40 per kg.

Saket Kapoor: Okay and month-on-month for the month of October you are telling me this price?

Pradeep K. Rustagi: For the month of October average would be Rs.38.5 PTA and Rs.30.50 MEG.

Arvind Singhania: It's been a marginal increase only.

Saket Kapoor: Marginal increase has been there sir. And looking at what the world scenario has currently do we anticipate anything, any inflationary trends in coming in the raw material basket or these trends are going to continue going forward?

Arvind Singhania: We don't expect any major, we don't expect any major upward trend but even if it happens it will be a pass-through model so it doesn't matter.

Pradeep K. Rustagi: Basis our discussion with the PTA MEG suppliers we don't expect.

Saket Kapoor: Right sir. And about this Engineering plastic segment sir this was a cause of concern and it was even if I'm not wrong, we were interested and putting on block also going forward. Correct me on that front also, so sir as the auto segment trend has changed and the segment started reporting better numbers and you are currently looking for real relocation of the plant from the current site for engineering?

Arvind Singhania: Yes.

Saket Kapoor: Okay. So, sir what are our plan sir currently where are we shifting it and where are they housed currently?

Arvind Singhania: Currently it is housed in Uttarakhand in our plant of Ester industries where all the facilities are and we will move to a more conducive location where we will take full advantage of logistics cost and reduction of logistics.

Saket Kapoor: Okay, and what are the synergies between this claim and the engineering plastic segments, how do these two segments?

Arvind Singhania: Zero synergy there's nothing in common.

Saket Kapoor: So, it can be hived up also going forward also sir when we become a major player in the film segment, we can look for having of this segment into a segment entity all together?

Arvind Singhania: Yes.

Saket Kapoor: That could be the case sir?

Arvind Singhania: Yes.

Saket Kapoor: Okay, sir. And on the Real estate front sir you were earlier looking your real estate to be also sold?

Arvind Singhania: We are trying but it's not happening, Commercial real estate is very bad.

Saket Kapoor: But sir going for the next half also sir, the type of, the quality of numbers which now we are getting quarter-on-quarter sir, how confident are you that for the H2 also, at least this trend can continue, the numbers which we have posted for Q2 won't be, just a luckily number have come up because of XYZ reason but it is not sustainable basis we can report numbers of this was absolute number going forward also sir?

Arvind Singhania: Let me put it this way that largely we hope and expect that H2 will be similar to H1.

Moderator: The next question is from the line of Mohammed Patel from Blue Banyan Advisors.

Mohammed Patel: What are the peak sales that we can do around the engineering plastic side?

Pradeep K. Rustagi: We can do about on an annualized basis, we can do about 14,000, 15,000 tonnes.

Mohammed Patel: In terms of revenues?

Pradeep K. Rustagi: Value terms it could be about Rs.220 crore to Rs.230 crore.

Mohammed Patel: Okay. And what are the peak sales that can we do on the Specialty Polymer segment roughly?

Arvind Singhania: There is no limit to that.

Mohammed Patel: On the current capacity?

Arvind Singhania: We have to build the market as we keep building the market we will keep selling.

Mohammed Patel: Okay. Understood and you said that 3% margin increase after that relocation is this based on Q2 margins, or is it on the normal margins?

Arvind Singhania: This is nothing to do; relocation is a cost saving it has nothing to do with current margins.

Mohammed Patel: Okay. No, you said there will be 3% saving in the margins; will increase the margins by 3% EBITDA margins?

Arvind Singhania: We will increase the margin, by relocation we save cost, that's how the margin will increase.

Mohammed Patel: Understood. So, this increase will be on the average EBITDA margins that we have done historically or on the Q2 basis?

Arvind Singhania: It's a cost reduction.

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

Surendra: Sir my question is, just now you told that you are relocating that Engineering plastic business, this will happen in FY21 or FY22?

Arvind Singhania: It will happen in FY22.

Surendra: Sir one more question, that our film business right now we are running at 100% capacity utilization is there any opportunity for outsourcing the film?

Arvind Singhania: No, no question.

Surendra: Sir one more question that our Specialty business, you are saying that we would be able to do a turnover of Rs.150 crore in FY22, would we be needing any sizeable capex for it?

Arvind Singhania: Marginal nothing great.

Moderator: Thank you. The next question is from the line of Anirudh Thakre as a Shareholder. Please go ahead.

Anirudh Thakre: I just want to understand, are you looking for any new product development for this vaccination or for any opportunity in this COVID related market?

Arvind Singhania: No, I am not in the pharma business, even packaging, no.

Moderator: The next question is from the line of Ajay Bodke from Prabhudas Lilladher.

Ajay Bodke: Sir what would the exports for the current quarter and how do you see the trajectory in the medium for exports, in the various divisions.

Arvind Singhania: Okay, Specialty Polymers is all exports, there's nothing in domestics. About 30% of the volume in film will be exported and in the engineering plastics business it will be a very marginal number of exports, maybe 5% to 10%.

Ajay Bodke: Are the realizations for Film business in exports on par with the domestic realization or are they better or?

Arvind Singhania: Yes, it's competitive.

Moderator: Next question is a follow up question from the line of Rahul Nadkarni as an Individual Investor.

Rahul Nadkarni: So my question was on Specialty Polymer business. So we have an innovative PBT contract right for 400 tonne from global chemical player. So that is supposed to be renewed in some time. So are there any talks in terms of what is the quantum, do you see any increase in quantum in terms of renewal, or when will we get a confirmation on the renewal?

Arvind Singhania: I've already mentioned that, we've already got an indication for increase in volumes to about 1,200 to 1,500 tonnes next year. So, contract renewal is only a formality.

Rahul Nadkarni: Okay. So, we have a commitment on at least contract might follow, but around 1200 tonnes the number?

Arvind Singhania: Yes, 1200 to 1500 tonnes for next year.

Rahul Nadkarni: My next question is in terms of the Euro loan which you are planning to take, one what is the quantum of that loan, is the entire debt would be foreign denominated euro loan or do we have a domestic component is there?

Pradeep K. Rustagi: So, there would be rupee term loan also, the rupee term loan would be about Rs.160 crore, foreign currency loan in rupee terms would be about Rs.250 crore and Rs.175 crore would be the equity investment from Ester Industries. So, that's how the Rs.585 crore will be funded.

Rahul Nadkarni: Okay. And in terms of the Rs.250 crore will it be completed hedged or you will have natural hedge by way of your exports?

Arvind Singhania: We have a natural hedge by way of exports.

Moderator: The next question is from the line of Rajesh Bhatia from ITI Long Shot Fund.

Rajesh Bhatia: Sir my question was on polyester film business, which is basically, it's a global commodity and in India also we have find other players now. So, what makes you so confident in the, margins would sustain, why I am asking this question is again there can be the price is global for these kind of products. So globally anywhere if the capacities are coming up that can put pressure. Another thing is a company like SRF, they have been saying that they expect the margins to become softer because of global capacity addition which they might be more aware of obviously. But, still one of the thing they have been sort of repeatedly guiding that we are at the peak and it's a cyclical business so packaging thing business let say for SRF if you see there was period in FY12-13 when even the negative margins were there and then it suddenly shot up so we are at, are we at the peak of the cycle or where exactly we are just wanted your thoughts and outlook on that?

Arvind Singhania: I have already mentioned that the margins will remain between Rs.50 and Rs.60 for the next in the short to medium term period.

Rajesh Bhatia: Okay, but you don't see any risk to these margins or?

Arvind Singhania: In this short to medium term no, after in the longer term as capacities come up, there could be softening of the margins, but not immediately.

Rajesh Bhatia: So, given globally also we don't see any great capacity additions. Obviously, you will be more aware because we don't come across.

Arvind Singhania: Capacity additions are going to continue to happen in this business because globally there is a demand growth of about 6% per annum. So capacity addition will have to happen to cater to increase in demand.

Rajesh Bhatia: Okay, and domestically also like most of these players have plans for capacity addition. So even when our capacity comes up, you don't see that there could be any bunching up of capacities two years down the line?

Arvind Singhania: There could be short periods where capacities get bunched up, that's definitely a possibility, but it's not happening for the next two years.

Moderator: Ladies and gentlemen, that was the last question for today. I now hand the conference over to the management for their closing remarks. Thank you and over to you.

Arvind Singhania: Thank you very much. Ladies and gentlemen, for joining us for the earnings call for Q2 FY21. And we look forward to seeing you all again after the next quarter. Thank you.